

103
**PROBLEMS FACING MINORITY AND WOMEN-
OWNED SMALL BUSINESSES IN PROCURING
U.S. GOVERNMENT CONTRACTS**

Y 4. G 74/7: M 66/9

Problems Facing Minority and Womeno...

HEARING
BEFORE THE
COMMERCE, CONSUMER, AND MONETARY
AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JULY 12, 1993

Printed for the use of the Committee on Government Operations



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PROBLEMS FACING MINORITY AND WOMEN-OWNED SMALL BUSINESSES IN PROCURING U.S. GOVERNMENT CONTRACTS

MONDAY, JULY 12, 1993

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER, AND
MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Chicago, IL.

The subcommittee met, pursuant to notice, at 8:12 a.m., in the Ceremonial Courtroom, Dirksen Federal Building, 219 South Dearborn Avenue, Chicago, IL, Hon. John M. Spratt, Jr. (chairman of the subcommittee) presiding.

Present: Representatives John M. Spratt, Jr. and Bobby L. Rush.
Also present: Thomas S. Kahn, chief counsel; Stephen R. McSpadden, senior counsel; and Marc M. Rose, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN SPRATT

Mr. SPRATT. Good morning. It is good to be in Chicago.

Today, the Commerce, Consumer, and Monetary Affairs Subcommittee of the Government Operations Committee is pleased to be in Chicago to examine, first, the problems that face small businesses, small businesses owned by racial minorities, and small businesses owned by women, and, second, the adequacy of an array of Federal programs that are supposed to deal with the problems that they confront trying to get established and to do business.

When our subcommittee sat down to map out its agenda just a few months ago in March, each member of the subcommittee presented things that he would like to have the subcommittee pursue in the course of the next year. Congressman Bobby Rush, who is the ranking Democrat on this subcommittee and an active member of our subcommittee—he comes to all our meetings, takes a strong part in our work—told us this was the one thing at the top of his list, the one thing that he would like to see the subcommittee pursue. Other members of the subcommittee had ideas like this, but none of them followed through on his or her idea like Bobby Rush and his staff. They have done a superb job in helping us put together what I think will be an excellent hearing today, with four different panels of fine witnesses, each with a different angle on the problem. And I think we will compile a good record today to take back to Washington and to consider in making recommenda-

tions, which we perhaps may build on with more field hearings elsewhere.

But I cannot think of a better place to do a field hearing, to get out of Washington and see how these programs really work. That is the purpose of our committee, to see whether programs like 8(a) are working as we intended them. We see how the Government is executing the programs that we in Congress enact. Given his role in conceiving this hearing and helping us put it together, I think it is appropriate that we turn first to Congressman Bobby Rush and let him open it with a statement as to its purpose, focus, and mission today.

Congressman Rush.

Mr. RUSH. Thank you, Mr. Chairman. Chairman Spratt, I must tell you how delighted and appreciative we are for your taking the time out from your obviously busy schedule to come here to Chicago to listen to the concerns of minority and women-owned businesses and business owners. This hearing is absolutely essential because over the course of the many years that I have been involved in local government here, I have always reacted very strongly to the lack of opportunities and the lack of carrying out the mandate and the spirit of various laws; State laws, local laws, and Federal laws. I must say that it is imperative that the needs of small businesses, especially minority and women-owned small businesses, be addressed.

Small businesses are an integral part of the country's economy. Our economy will not grow and prosper without successful small businesses. This Nation was built on the back of small businesses and will continue to depend on them to maintain economic stability.

This hearing is being held to conduct a case study of the plight of minority and women-owned small businesses. I am honored that you have come to Chicago as the site of this case study.

The subject matter of today's hearing is one that greatly concerns me and my constituency, the city, and the Nation at large. I am appalled at the failure of the Federal Government to adequately address the problems faced by minority and women-owned businesses. The Federal Government's current programs designed to help these businesses are, in my opinion, inadequate, ineffective, and in some cases have yet to be implemented.

Chairman Spratt, I look forward to receiving testimony on innovative and new approaches for helping these small businesses and businesses like them to take advantage of current Federal technical assistance, set-asides, financing, and other programs.

Again, I want to let you know that I have a deep-seated appreciation for the fact that you would take the time out from your busy schedule to come here to conduct this hearing today. It is no small measure of your concern for the economic vitality of the Nation, that you have come here today, and I look forward to working with you on this issue and other issues as they come before our committee and then come before the House of Representatives.

Mr. SPRATT. Thank you very much, Congressman Rush.

Let me just set the framework for what we are seeking to establish in the record today. I do not need to say it to this audience, you all know it. I can look out and see that there is a lot of experi-

ence represented here. When the economy turns in general, it turns first on small businesses, who tend to suffer the most from recessions and they tend to be the last to recover, especially in feeble recoveries like we have got right now.

And yet the small business community is essential, it is absolutely the backbone of our economy, and it is where jobs are being created. Large firms are shedding jobs, sloughing off people. It is the small business firms which we have got to look to if we are going to have a resilient economy.

Today, we will look at testimony and written statements from a diverse group of people. The first objective of this hearing is to shed light on the problems and concerns, as I said, of minority business owners and women business owners. And second, we want to look at the adequacy of efforts by Federal agencies to set-aside or otherwise award contracts to such businesses and the effectiveness, in particular, of the Small Business Administration's Surety Bonding Program. This was one of the first things that Congressman Rush brought to our attention and asked us to pursue, the difficulty of obtaining surety bonds, which sometimes is the biggest barrier, particularly for small business construction firms.

We also want to explore the constructive solutions. For example, with respect to surety bonds, what are the problems, what are the solutions; can such bonds be waived in certain circumstances, or can the premiums be mitigated by the Small Business Administration. We want to look at solutions and not just the problems.

This hearing will focus first on obstacles in obtaining competitively bid U.S. contracts and ways to overcome them; and second, on problems in the SBA's Section 8(a) contract set-aside program, including technical and business development assistance. We have the following questions: How adequate is it? How well does SBA market 8(a) contractors with Federal agencies? How well does SBA intermediate conflicts, arbitrate contractual disputes between small businesses and Federal agencies when they occur? How adequate is the staff of the SBA when it comes to processing applications for 8(a) eligibility, when it comes to acting as the downfield blocker, in other words, the interference runner for small businesses who have problems? How good are they at going out, identifying, and matching opportunities in the Federal Government with abilities on the part of small business firms.

We want to find out just how successful other Federal agencies have been also in carrying out their responsibility, which we have imposed upon them by law, to actively develop opportunities within their whole portfolio of business for small businesses.

SBA has the primary mission here. SBA is the mediator. SBA is supposed to bring the parties together. But that does not mean it is SBA's work alone. The VA, HUD, GSA, and all the array of other Federal agencies and departments also have a responsibility. And one of the questions before us today is how seriously do they take that responsibility. Because the SBA, as we will find, is understaffed and undermanned, it is probably also underskilled. They cannot do it by themselves. If there is any lesson we have learned in past hearings, certainly that is one of them.

So what can we do to repair the problems? We know that this program is not working ideally—everybody knows that. We did not

come here under any illusion that this was some grandiose thing that was working grandly. We would not be here otherwise. What can we do to make it work better?

And it is all the more important today to consider other solutions because we know the Federal Government's resources are limited. We have a huge deficit, but we also know that the needs of small business America and particularly the needs of minority-owned and women-owned firms are greater than ever. So somehow or other we have to come up with new, novel, constructive, creative solutions, and that is what this hearing is about today.

We were delaying starting just a bit so that all the members of the first panel could arrive. And as I call your name, if you will come forward. I think we have one substitution to start with. Glen Harston, president of Black Contractors United, was to be on the panel but he is substituted for I understand by Jerome Peters. Is Mr. Peters here.

Ms. RATNER. He just left the room, he should be back in a minute.

Mr. SPRATT. He is here? That is fine. When he comes, if you will just direct him up to the panel table then.

Theresa Kern, who is the president of Women Construction Owners & Executives, USA, the Illinois Chapter.

Ms. RATNER. I do not believe she is here.

Mr. SPRATT. Not here? OK. Ray Mota, president of Hispanic American Construction Industry.

Ms. RATNER. Not here.

Mr. SPRATT. Not here yet. Thank you. Well, we may skip the first panel and come back to it. [Laughter.]


Sam Chung, president of the Association of Asian American Construction Enterprises.

Ms. RATNER. Sam is not here.

Mr. SPRATT. OK.

Ms. RATNER. Sorry.

[SUBCOMMITTEE NOTE.—The subcommittee staff determined after the hearing that each of these four witnesses on the first panel had not received a letter of invitation from Chairman Spratt. Although the subcommittee had sent out those four letters signed by the chairman on June 18, 1993, they were apparently and inexplicably lost in the mail. And so each of those witnesses did not appear for that reason. They were offered an opportunity to submit a statement for the record. Ms. Kern had previously submitted the following statement prior to the hearing:]

ILLINOIS  CHAPTER
 WOMEN
 CONSTRUCTION OWNERS
 & EXECUTIVES, USA

June 1, 1993

OFFICERS/DIRECTORS

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 Theresa Kern
 M. A. Steel Erectors, Inc.

SR. VICE PRESIDENT
 Donna Stevenson
 Stevenson Crane Service

VICE PRESIDENT
 Judith A. DeAngelo
 JADE Carpentry Contractors

TREASURER/NATL. SR. REP.
 Susan Larson
 House O'Life/HOLCOR

SECRETARY/NATL. JR. REP.
 Susan L. Hurley
 Cable Communications Inc.

CHICAGO DISTRICT REP.
 Kim North
 Northern Lights Electric Co.

EXECUTIVE DIRECTOR
 Margery Newman
 Prezsol & Stouffer

PAST PRESIDENTS
 Anna Bigane Wilson
 Bigane Fraving Co.

Manly Meyer
 Castle Construction Corp.

Women Construction Owners and Executives, USA, Illinois Chapter (WCOE) is part of a national association representing women construction owners in our industry. It was formed to create a network promoting opportunities and business for member-owned firms. Our specialized agenda is not met by any other construction association or women management association; and our members are dynamic women, personally committed to the growth of women in the construction industry.

WCOE was created to:

- Promote the role of women business enterprises in the construction industry;
- Provide opportunities and business contacts for member-owned firms;
- Create a legislative network to monitor and pursue legislation advantageous to the business community and the construction industry.

WOMEN'S BUSINESS PROCUREMENT ASSISTANCE ACT OF 1993

WCOE members unanimously support the "Women's Business Procurement Assistance Act of 1993", (Kaptur). This bill would permanently establish the Office of Women Business Ownership within the Small Business Administration; mandate that all federal agencies identify and establish procurement goals for women business enterprises; and require each federal agency to hire a specialist to assist women-owned businesses in obtaining procurement opportunities.

EQUAL SURETY BOND OPPORTUNITY ACT

WCOE has found that one of the greatest barriers women-owned contractors face in their business expansion is their ability to obtain surety bonds. WCOE, with the unanimous support of its membership, urges the enactment of the "Equal Surety Bond Opportunity Act", H.R. 1464 (Holmes). Senator Simon will be introducing companion legislation soon.

UNIFORM DEFINITION OF WBE

WCOE supports a single WBE definition for all purposes. We oppose any legislation or regulation which creates a double standard in defining women as compared to minority business enterprises.

UNIFORM CERTIFICATION

We unanimously support the integrity of a certification process which promotes legitimate WBE's. Our primary concern is to establish uniform certification standards with reciprocity among agencies within the established federal regions so that any entity receiving federal funds would be required to accept the certification. Only updated material would be required for recertification. WCOE supports a strong certification program with all government entities. We oppose any type of self-certification program such as has been used under the Small Business Competitiveness Demonstration Program.

EQUAL CREDIT AND FINANCE OPPORTUNITY

Inequities still exist in the securing of credit and finance opportunities for women. WCOE advocates stronger enforcement of equal credit opportunity and financial assistance to all women-owned businesses.

NATIONAL WOMEN'S BUSINESS COUNCIL

WCOE strongly supports continued funding for the National Women's Business Council having found its studies, efforts and advocacy on behalf of women business enterprises to have a positive impact on identifying the needs of women-owned businesses. Continued funding will allow the council to expedite and conclude programs and projects now in progress.

* * * * *

Regarding WCOE's assessment of current federal programs directed towards women, we note the following:

Non-minority women are excluded from assistance such as that provided by the Mega Center;

Non-minority women are not included in Federal Procurement goals; and

Non-minority women are excluded from the Small Business Administration 8A Program.

Mr. SPRATT. All right, let us try the second panel and see how good attendance is. Sherman Copelin is here I believe. Mr. Copelin, come on up, let us take the second panel. David Ramirez, who is the president of the Illinois Section 8(a) Contractors.

A VOICE FROM AUDIENCE. Mr. Chairman, David is on the way.

Mr. SPRATT. Do you think he will be here in about 5 minutes or so?

A VOICE FROM AUDIENCE. Let us give him 5 minutes and if not, I will be glad to sit in for him.

Mr. SPRATT. OK, fine. Joe Williams, president of the Target Group.

Ms. RATNER. Not here.

Mr. SPRATT. OK. And Steve Leite, Robert Keith & Associates and chairman of the Surety Development Committee. Come on up.

Well, you guys are going to get more time than we had planned. You are going to have to talk until your colleagues come. But that gives you time to expound on your statements.

If there is no objection, we will make your statements part of the record, so that you do not have to read them; you can summarize them, and you can focus on the points that you think are important.

And before we get started, just as a formality so that we get everything on the record before us, by unanimous consent, I would like to order that we make part of the record the written statements of the following organizations which have been or will shortly be received: The U.S. Minority Business Development Agency; the Minority Business Opportunity Committee; the Office of Regional Contracting, Department of HUD, Housing and Urban Affairs; the Chicago Urban League; and the Chicago Regional Purchasing Council.

Because of time constraints and the need to end the hearing early in the afternoon, we were not able to take oral testimony from all of these groups, but they have made statements available today which we want to make part of the record.

I would like to thank these organizations and their representatives who are here today. If there are some representatives of these organizations, would you care to stand and identify yourselves? First of all, the U.S. Minority Business Development Agency. Anyone here from that agency? Yes, sir, would you stand and identify yourself?

Mr. VEGA. David Vega, Regional Director.

Mr. SPRATT. Welcome, thank you for coming.

The Minority Business Opportunity Committee.

Ms. NORRIS. Hi. LaVena Norris, Executive Director.

Mr. SPRATT. Thank you for coming.

The Office of Regional Contracting, Department of Housing and Urban Affairs. HUD here?

[No response.]

Mr. SPRATT. The Chicago Urban League.

Ms. DANIEL. Suzanne Daniel, vice president.

Mr. SPRATT. Welcome, thank you for coming.

And the Chicago Regional Purchasing Council.

We do have testimony from those organization.

Mr. HARRIS. My name is Norton Harris and I am a member of the Chicago Regional Purchasing Council and Minority Business Steering Committee.

[SUBCOMMITTEE NOTE.—It was subsequently determined that the Chicago Regional Purchasing Council declined to provide a statement.]

Mr. SPRATT. Thank you. We are glad to have you and thank you for identifying yourself.

As an aside, the executive director of the Chicago Regional Purchasing Council, May Foster Thompson, has been extremely helpful to Congressman Rush and to our staff and organizers of this hearing, and I think her efforts deserve to be recognized.

[The prepared statements submitted for the record follow:]

JOHN CORNYN, JR. MISSISSIPPI
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Congress of the United States
 House of Representatives

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MAJORITY—(202) 225-8061
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June 18, 1993

Mr. Frank Slezak
 Director of Regional Contracting
 Department of Housing and Urban Development
 77 West Jackson Blvd.
 Chicago, Illinois 60604-3507

Dear Mr. Slezak:

The Commerce, Consumer, and Monetary Affairs Subcommittee will hold a hearing on July 12, 1993, in Chicago, beginning at 8:00 a.m., in Room 2525 (the Ceremonial Courtroom), 219 S. Dearborn Avenue, concerning small business and Federal procurement issues, with Chicago as a case study. I would like to request that you submit a written statement for the record, which will be placed in the hearing transcript.

The Subcommittee is examining problems and concerns confronting minority and also women owned small businesses in the Chicago area and the adequacy of Federal agency activity directed to such businesses, including the effectiveness of relevant SBA programs and the adequacy of efforts by Federal procurement agencies to implement goals to set aside some contracts for such businesses. The Subcommittee will also receive both testimony and written statements on innovative and new approaches for helping small businesses, including new ways to obtain surety bonding. I would like the hearing record to serve a constructive function, both to shed light on the problems and to explore solutions to those problems, compiling information for a likely committee report.

It would be most helpful if your statement could respond to the following questions:

- 1. Extent of Small Business Contracting & Subcontracting:** Please provide the following regional data, which can be, as I understand, readily retrieved from HUD's data base. Specifically, set forth HUD Chicago Region's (a) contracting goals for fiscal years 1991, 1992, and 1993, overall and for each small business category, and indicate how well those goals were and are now being met, and (b) the numbers of and total dollar value of section 8(a) contracts entered into by the HUD region in the FY 1991, 1992, and 1993 (first half), broken down by whatever subcategories utilized by HUD. (This request applies only to HUD's contracting operations, not its grant activity.)
- 2. SBA's Section 8(a) program:** Please discuss the extent of HUD Chicago Region's participation in, concerns about or problems with, and suggestions for improving, the SBA's

section 8(a) program, providing typical examples and suggesting solutions. In responding,

- a. Describe the difficulties in utilizing section 8(a) contractors, including the past experiences of the 10 HUD offices within the HUD Chicago Region, listing all of the kinds of problems which these offices encountered in using 8(a) contractors and the outcome of such problems (i.e. were the problems resolved); and indicate the sources and reasons for these problems, addressing any of the following issues, if applicable: (i) the SBA's 8(a) selection and certification process, (ii) the SBA's contracting administration process, (iii) any problems with 8(a) firms which SBA could prevent or help resolve, and (iv) the adequacy of SBA staffing;
- b. Describe the current deficiencies in SBA business development, outreach, technical, financial, marketing or other assistance for 8(a) firms and the reasons for such (such as the qualifications and numbers of business opportunity specialists);
- c. Suggest improvements in procedures, policy, or staffing which would help overcome these problems (under a. & b. above), including but not limited to (i) any changes concerning the selection and marketing of 8(a) firms and the 8(a) dollar thresholds on competitive contracts, (ii) SBA's activity and role in resolving contractual disputes with 8(a) contractors, (iii) the assistance which the SBA could optimally render either to 8(a) firms or to the HUD regional office, which would make the program work more effectively and enable it to increase the number of 8(a) contracts, and (iv) the usefulness of an 8(a) customer (agency) satisfaction survey (proposed by an official at another agency);
- d. Discuss SBA's optimal role in the process, and specify which objectives of the 8(a) program should be given priority (Should this program, for example, be more a contracting program than a business development program? Or should SBA play more of the role of monitoring and husbanding the business, similar to what a venture capital firm would do?); and
- e. What more could the HUD regional office do to increase its participation in the 8(a) program, to increase both the number of participating contractors and increase the number of contracts, notwithstanding any problems and concerns which you have already discussed.

Please telephone Subcommittee Senior Counsel Stephen McSpadden if there are any questions about the above. We would appreciate receiving 60 copies of your written statement just prior to the hearing (we would prefer you or your representative giving it to Mr. McSpadden or Mr. Bill Burke, Congressman Rush's special assistant, no later than 7:45 a.m. the morning of the hearing, before it begins) and would appreciate receiving 10 copies for the Subcommittee members no later than Thursday, July 8th, prior to the hearing. I would like to thank you and the HUD Chicago Regional Office for your and their cooperation and efforts.

Sincerely,



John M. Spratt, Jr.
Chairman

JUL 9 1993

RECEIVED

JUL 22 1993

Honorable John M. Spratt, Jr.,
 Chairman, Subcommittee on Commerce,
 Consumer and Monetary Affairs
 U. S. House of Representatives
 2157 Rayburn House Office Building
 Washington, DC 20515-6143

COMMERCE, CONSUMER AND
 MONETARY AFFAIRS SUBCOMMITTEE

Dear Mr. Chairman:

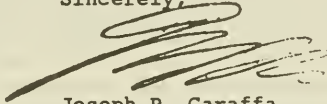
This is in response to your letter dated June 18, 1993 addressed to Mr. Frank Slezak, Director, Regional Contracting Division for Region V of the U.S. Department of Housing and Urban Development.

As per your request, enclosed is a Statement Examining Problems and Concerns Confronting Minority Small Business and Women-Owned Businesses in the Chicago Regional Office of the U.S. Department of Housing and Urban Development, specifically regarding the Small Business Administration's Section 8 (a) set-aside program, as it relates to Region V, covering the States of Illinois, Indiana, Michigan, Wisconsin, Minnesota and Ohio.

We believe that you will find this Statement useful as your Subcommittee consider issues concerning the efficient and effective management of Federal procurement programs.

If you need further information regarding this matter, please contact Mr. Alfredo Valentin, Supervisory Contract Specialist at 312-886-9767.

Sincerely,



Joseph P. Garaffa
 Acting Regional Administrator -
 Regional Housing Commissioner

Enclosures

cc: Jones, SS
 Dewalt, ACP

STATEMENT EXAMINING PROBLEMS AND
CONCERNS CONFRONTING SMALL MINORITY AND WOMEN OWNED BUSINESSES
IN THE CHICAGO REGIONAL OFFICE OF THE US DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT (HUD)

Introduction

Mr. Chairman and Members of the Subcommittee:

The Chicago Regional Office of the U. S. Department of Housing and Urban Development (HUD) is pleased to have an opportunity to provide this Subcommittee with our concerns as they relate to procurement activities with small, disadvantaged, and women-owned businesses, specifically regarding the Small Business Administration (SBA) Section 8 (a) set aside program.

Our Regional Office is responsible for HUD programs throughout Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. Our procurement needs consist primarily of (1) management, maintenance, and sales support for foreclosed properties and (2) support services for our mortgage insurance programs. We are in the process of transferring our procurement activities from our 10 field offices to a new Regional Contracting Division in our Chicago Office.

In response to your specific inquiries, we offer the following.

1. Extent of Small Business Contracting

Due to the above noted transfer of function, data concerning all Regional procurement transactions is presently spread among four separate information systems. The information presented below, while not totally complete, captures the vast majority of our procurement transactions throughout the Region.

Fiscal Year 1991	Dollars	Percentage
Total Procurement	\$51,310,826	100%
Small Business	32,248,749	62%
Disadvantaged Bus.	8,383,182	16%
Women-Owned Bus.	21,081,087	41%
SBA 8(a)	780,819	1%

Fiscal Year 1992	Dollars	Percentage
Total Procurement	\$54,158,130	100%
Small Business	24,354,088	44%
Disadvantaged Bus.	5,936,527	10%
Women-Owned Bus.	9,137,878	16%
SBA 8(a)	0	0%

Fiscal Year 1993	Dollars	Percentage
Total Procurement	\$25,565,931	100%
Small Business	11,256,582	44%
Disadvantaged Bus.	1,495,035	5%
Women-Owned Bus.	2,440,933	9%
SBA 8(a)	0	0%

2. SBA's Section 8(a) program

Over the past five years, we encountered serious difficulties in obtaining reasonable prices and successful contract performance under 8(a) contracts throughout the Region.

In several instances, prices under 8(a) contracts were significantly higher than prices obtained for similar services through full and open competition procurement procedures. For example, armed security guard services which were last obtained under an 8(a) contract at \$18.10 per hour were subsequently obtained through full and open competition at \$14.16 per hour for the same property. Based on the guard schedule at the property, the open market priced contract, which was won by a small, disadvantaged firm, represented an annual \$69,000 cost savings. Defective paint removal services performed under a 8(a) contract at \$279 per property were obtained at \$215 per property through full and open competition. In each case, unsuccessful attempts were made to negotiate lower prices with the involved 8(a) firms prior to pursuing open market procurement procedures.

Serious contract performance problems were also encountered. The project manager and bookkeeper of an 8(a) accounting firm under contract to administer a multi-million dollar rental housing assistance payment program were convicted of

fraud involving over \$250,000. An 8(a) advertising contractor failed to make payment for newspaper advertisements for sale of single family properties resulting in the delay of a scheduled property sales bid opening.

In addition to the above examples, our survey of offices in response to your inquiry disclosed other difficulties. Our offices expressed frustration with the unwillingness of 8(a) firms and SBA staff to understand and be responsive to our procurement needs. In one case involving the negotiation of a property maintenance contract, an 8(a) contractor refused to visit our properties to gain a better understanding of our needs. In other cases, 8(a) firms expressed the attitude that they were unwilling to enter into substantive discussions with our offices concerning contract pricing and provisions. Rather, the 8(a) firms expected to receive contracts based on their proposed prices irrespective of our historical pricing information.

The above factors resulted in a general reluctance by our program and procurement staff to view the SBA 8(a) program as a viable option to meet our procurement needs. Thus, we have had limited involvement with the 8(a) program for the past two years and have a limited basis upon which to make specific recommendations to improve the program. We do, however, have the following general suggestions:

- a. Increasing the small purchase ceiling from \$25,000 to \$50,000 or \$100,000 would provide greater opportunities for small, disadvantaged and women-owned businesses to obtain contracts and establish performance track records.
- b. Providing authority to civilian agencies such as HUD to do small, disadvantaged and women-owned businesses set-asides in the open market would create greater opportunities and results for all such firms.
- c. Staffing SBA to become more oriented to individual agency procurement needs would benefit 8(a) firms. We have observed that SBA is effective in providing training and liaison concerning common procurement topics which cross-cut all agencies. However, our needs differ from those of other agencies and increasingly require highly specialized experience in such areas as property appraisals, mortgage insurance underwriting, and closing agent services. Few 8(a) firms have the expertise to provide such services. In the limited cases where we have worked to assist seemingly promising 8(a) firms to develop such expertise, we have encountered inadequate contract performance.

d. Significantly lowering the \$3,000,000 threshold for competition under 8(a) set-asides could contribute to addressing the pricing problem identified above.

Regarding our efforts to increase participation in the 8(a) program, we began working this spring with SBA to award an 8(a) contract for architect-engineering services. We have been encouraged by the flexibility displayed by SBA staff in this case and are hopeful that with successful contract performance, the 8(a) program can become a viable procurement alternative for our offices.

3. Conclusion

We thank the Subcommittee for the opportunity to express our views. The SBA 8(a) program provides the only currently available means of setting aside our procurements for small, disadvantaged businesses. The program has not worked effectively for our offices. We are committed to working with SBA to try to correct past problems and increase utilization of the 8(a) program. However, we believe other mechanisms as recommended above should also be considered in attempting to increase opportunities and participation by small, disadvantaged and women-owned businesses in Federal procurement activities.



 UNITED STATES DEPARTMENT OF COMMERCE
 

Minority Business Opportunity Committee
 Operated by the Bureau of the Census
 Funded by the Minority Business Development Agency (MBDA)
 175 West Jackson Boulevard - Suite 557
 Chicago, IL 60604 312/353-7194

STATEMENT OF
 LaVena M. Norris
 Executive Director
 Minority Business Opportunity Committee (MBOC)

The Commerce, Consumer, and Monetary Affairs Subcommittee
 July 12, 1993
 Chicago, Illinois

I would like to thank Congressman Spratt, Congressman Rush and the entire Subcommittee for convening this hearing here in Chicago. Also, I appreciate the opportunity to share with you the observations that the Minority Business Community has shared with me relative to their problems and concerns about the various programs whose stated purpose is the assist and expand business opportunities for minorities. However, sometimes in the process of implementation the intended purpose becomes skewed because of the ways in which Minority Business Enterprises (MBEs) must gain access to these programs.

I would like to briefly give the Subcommittee an overview of the MBOC's goals and objectives. The Chicago MBOC is under direct supervision of the U.S. Bureau of the Census, Chicago Regional Office. Mr. Stanley D. Moore, Regional Director also serves as Chairman of the MBOC.

Let me begin by saying that the Minority Business Development Agency (MBDA) funds the operation of the MBOC. MBDA's Chicago Regional Office, under the direction of Mr. David Vega, Regional Director, monitors the activities of the MBOC. The MBOC is a chartered member of the Chicago Federal Executive Board (FEB). Federal Executive Boards were created in 1961 by then-President John F. Kennedy. The purpose of the FEB's are to improve internal management practices of the Federal Government; to strengthen coordination of Federal activities by supporting and promoting initiatives of the President and his administration; and to provide a central focus for Federal participation in community affairs. The MBOC is charged with assisting and servicing the needs of the MBEs who are socially or economically disadvantaged persons as defined by Executive Order 11625 and revised by the Secretary of Commerce. Accordingly, this applies to a group of people who have experienced cultural or racially chronic-prone, economic circumstances or backgrounds which are termed socially or economically disadvantaged. The following groups are recognized as socially and economically disadvantaged: African Americans, Hispanics, Pacific Americans, Native Americans, Hasidic Jews, Aleuts and Eskimos. As a group, women are not considered socially or economically disadvantaged by MBDA or according to Executive Order 11625.

Despite the federal involvement and commitment to Minority Business

Development there is still room for improvement. For example, membership of the MBOC should comprise of key contracting officials from Federal, State, County, Local and Private Sectors as active participants. Currently, this is working in theory, but needs to be improved upon in practice. Particularly the FEB could be instrumental in playing an effective role, i.e, each FEB member agency should commit to having agency representation by serving as a member of the MBOC Network.

Having this type of representation would enhance having a broader base of resources that can offer assistance and increase support to the Minority Business Community. Specifically, the MBOC offers resource assistance in the areas of:

- o Procurement
- o Marketing
- o Real Estate/Construction
- o Finance
- o Education
- o International Trade

The MBOC's further objectives are :

- o Serve as a focal point to insure minority business participation in local communities.
- o Identify and disseminate economic opportunities for the minority business sector.
- o Identify barriers precluding maximum participation by the minority business community, and develop approaches for overcoming barriers in the areas of financial management and marketing.
- o Serve as a community advocate for full inclusion of the minority sector in economic life of a business community.

The MBOC's delivery of services are free to the MBE community and

does not duplicate any service that are being provided by any other agency or organization. Throughout the Federal and State structure there is no other agency or organization comparable to the MBOC mainly because of its relationship to the FEB and because of the advocacy role it undertakes on behalf of MBE's.

In order to best serve the needs of the Minority Business Community it is imperative to understand what their experiences are and/or have been when utilizing the various programs that have been designed to help them obtain more business opportunities.

The MBE Community would be best served if I express their concerns in making the following statements:

Problem: Access to capital for minority businesses is a very critical problem.

Possible Solution: Getting lending institutions to look at alternative ways for providing financial assistance to those who do not meet traditional standards for acquiring a business loan, but who have very sound business plans.

Problem: Utilization of the word "Minority" in describing a business. Too often, minorities feel that they are at a disadvantage from the outset when they are referred as "less than" which may be perceived as incapable of being able to do business at a highly professional and quality level.

Possible Solution: It has been suggested that perhaps using a different way of describing these businesses would serve them more effectively, i.e., Historically Underutilized Business (HUB) as

was recommended in the U.S. Commission on Minority Business Development Report.

Problem: The programs that have been created to service MBE's are not always "user-friendly". Too often, there are different procedures to be followed from agency to agency there seems to be a great deal o inconsistencies, i.e., interpretations of policies and procedures as individuals in the various agencies may choose to implement.

Potential Solution: Establishment of a centralized way for coordinating and disseminating information regarding MBE programs. This will best serve those who must implement achieving the stated goals in their agencies as well as the MBE's will better understand what is expected of them as they utilize the programs. It seems to be very challenging for MBE's to understand all of the existing programs and how they work since there is so much information that is available about these programs a more simplified structured way for disseminating information would begin to eliminate some of the confusion and time spent by MBE's in just trying to differentiate which one's they want and/or need to use.

There needs to be an established way in which to monitor all governmental agencies as it relates to their role in fostering MBE participation in procurement opportunities within their particular agency. Also, if they do have designated goals there should be a reporting mechanism in place in order for those goals to be stated and reviewed. The enforcement component should be in the form of a reward for all agencies meeting stated goals, a penalty for those agencies who do not meet their goals.

In conclusion, I would like to express that there is a demonstrated need for Minority Business Programs to exist. MBEs need programs that will buttress their business concerns to foster the type of

growth and development that could not be achieved without the assistance of the services that are provided by these programs. Needless to say, there is always room for improvement with a more all-encompassing more efficient delivery of those services. Additionally, there needs to be an even stronger commitment by the U.S. Government to deliver those services more efficiently and effectively in order for MBEs to access and experience the positive results for having participated in such programs.

Once again, thank you Mr. Chairman and the entire Subcommittee for providing the MBOC an opportunity to express the foregoing statement to such a much needed forum as this.

U.S DEPARTMENT OF COMMERCE
MINORITY BUSINESS DEVELOPMENT AGENCY
WRITTEN STATEMENT FOR THE RECORD
BY REGIONAL DIRECTOR DAVID VEGA
FOR THE SUBCOMMITTEE ON COMMERCE, CONSUMER, AND
MONETARY AFFAIRS
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
JULY 12, 1993

Mr. Chairman, and Members of the Subcommittee. I am pleased to submit this Statement for the Record in support of the Commerce Department's Minority Business Development Agency's (MBDA) goal to bring about, in the words of our Secretary, Ronald H. Brown: "creative new business development efforts which will bring sustained growth to minority and disadvantaged businesses." As the Secretary has stated: "The Department of Commerce's uniquely business related programs can help realize the priority goals of the President in the areas of trade, technology, telecommunications networks and infrastructure, environmental infrastructure, economic development, and minority business."

I would now like to address those questions which you have asked the agency to describe.

MBDA ACTIVITY IN THE MIDWEST**AUTHORIZATION**

With authority through Executive Order 11625, October 13, 1971 and the Department of Commerce Appropriations Act, Public Law 102-395, MBDA competitively selects and funds cooperative agreements with more than 100 unique, business development centers to provide management and technical assistance to minority clients in designated Metropolitan Statistical Areas (MSAs). MBDA operates six regional offices nationwide -- New York City, Chicago, Atlanta, Dallas, San Francisco, and Washington, D.C. -- to monitor its respective regional delivery network in the minority business community. The agency currently has no statutory authority.

OBJECTIVE

To provide assistance and services, through the U.S. Department of Commerce-funded Minority and Native American Business Development Centers, the Minority Enterprise Growth Assistance (MEGA) Center and the Minority Business Opportunity Committee, to U.S. minority-owned companies or economically disadvantaged Americans located in the midwestern United States, who are interested in business expansion or business start-up.

PROJECT GRANTS AND ELIGIBILITY REQUIREMENTS

There are no eligibility restrictions for receiving project grants for this program. Eligible applicants may include individuals, nonprofit organizations, for-profit firms, local and state governments, American Indian Tribes, and educational institutions. Recipients of these funds provide minority clients in this region with advice and counseling in preparing financial packages, business counseling, business information and management, accounting guidance, marketing, business/industrial site analysis, production, engineering, surety bonding and construction assistance, certification, private and public sector procurements, mergers and acquisitions, joint venturing and international trade opportunities.

AGENCY LOAN AUTHORITY

The agency has no authority to make loans. Program funds are restricted to providing management and technical assistance.

CRO MISSION

As one of six MBDA regions throughout the country, the mission of the Chicago Region is to promote the awareness of the Commerce Department and other Federal Government programs, to better assist potential entrepreneurs in entering the mainstream of American

business, and to increase the competitiveness of the existing 124,000 U.S. minority-owned companies in a ten-state Midwestern region: Illinois, Michigan, Indiana, Wisconsin, Missouri, Ohio, Nebraska, Kansas, Iowa and Minnesota. Together, these businesses have gross sales of \$6-8 billion, with profound economic impact on the Midwest.

PRE-APPLICATION AND GRANT AWARD PROCESS

Pre-application conferences will be scheduled for most MBDA projects. All pre-application conferences will be announced in the Federal Register. This program is excluded from coverage under E.O. 12372.

APPLICATION AND AWARD PROCESS

The application kit, which includes all required standard application forms, will advise the applicant on how to complete the application and where it should be submitted. Each application will be reviewed and evaluated by the respective MBDA region. Competitive awards for the MBDC/IBDC Program are based on a panel's evaluation of the applicant's demonstrated ability to provide business assistance as described in the application. This evaluation includes other factors such as capability and experience of staff assigned to the project, techniques, methodology, resources and costs. Name checks, verification of academic credentials and pre-award audits may be required from applicants. Deadlines for formal competitive awards are outlined in the Federal Register and the Commerce Business Daily. Time frame for award decisions is usually from 4 to 6 months. All decisions are final. There is no administrative appeal process.

AWARD RENEWALS

MBDA continues to fund MBDCs after the completion of the initial competitive budget period at the discretion of the Agency. The continued funding process is employed for the two-project budget periods after the original competitive period. The satisfactory completion of three-budget periods may automatically initiate a new round of competition unless a recipient qualified for the MBDC program's performance incentives. However, the MBDC will receive continued funding after the initial competitive year at agency discretion, the availability of funds, the MBDC's performance and agency priorities.

ASSISTANCE CONSIDERATIONS

In most program areas, MBDA has established minimum requirements for matching or cost sharing by the recipient. MBDC's are required to provide a minimum 15 percent cost sharing through in-kind contributions and cash, including client service fees. MBDA reserves the right to decide on a case-by-case basis whether a non-federal contribution is required in other program areas so as to successfully implement the program.

**POST ASSISTANCE REQUIREMENTS/OVERSIGHT AND
MONITORING BY THE CRO**

REPORTS

The recipient is required to submit quarterly financial reports. The submission of Quarterly Narrative Reports (QNRs) are required at the end of each quarter and the end of the fiscal year. Statistical reports (Business Development Reports) on each client's performance are required and submitted to the CRO for monitoring by an assigned Business Development Specialist (BDS). In addition, on-site monitoring by the BDS is mandatory during the 2nd quarter of the recipient's funding or during other quarters when the recipient's quantitative performance -- as indicated in the Recipient's Desk Assessment, also conducted by the BDS each quarter -- is less than satisfactory. All on-site monitoring by the BDS is contingent upon availability of regional budget resources.

AUDITS

In accordance with the provisions of OMB Circular No. A-128, "Audits of State and Local Governments," state and local governments that receive financial assistance of \$100,000 or more within the state's fiscal year shall have an audit made for that year. State and local governments that receive between \$25,000 and \$100,000 within the state's fiscal year shall have an audit made in accordance with Federal laws and regulations governing the programs in which they participate. Prior audit findings and recommendations may have a negative impact and may result in an application not being considered for funding. Audits will be conducted in accordance with OMB Circular No. A-133 for institutions of higher education, profit and non-profit organizations.

RECORDS

Documents, papers, and financial records relating to the business development center (the recipient), are required to remain available to the Federal Government for 3 years from the date of submission of the final financial status report. All financial and programmatic records, supporting documents, statistical reports, and other records of grantees or sub-grantees are required to be maintained by the terms of the agreement. The grantee must retain records for three years after completion of the project or submission of the final financial report, whichever is later, and be readily available for inspection and audit.

FINANCIAL INFORMATION

MBDA program appropriations for FY 92 was \$25 million; in FY 93 \$24 million.

PROPOSED FY 94 AGENCY BUDGET

The Commerce Department's proposed FY 94 Budget for MBDA is \$45.381 million, including \$29.0 million for agency programs; \$16.38 for program management with \$2.492 million in adjustments to the base.

FINANCIAL ASSISTANCE RANGE

Awards have ranged from \$165,000 to \$622,000, with the average award being \$212,000.

NATIONWIDE PROGRAM ACCOMPLISHMENTS

In FY 92, MBDA's delivery network, operating in approximately 100 locations, assisted 18,213 clients (an increase of 9.7% in comparison to FY 91) -- and generated over \$1.398 billion in combined business transactions (\$370.3 million in financial loan packages and \$1.027.7 billion procurement contracts). This overall assistance includes facilitating the establishment of 1,362 newly started minority-owned and -operated enterprises with the creation of 4,082 new jobs.

In FY 93, 1st Quarter, preliminary estimates indicate that this nationwide delivery network assisted 3,846 clients -- generated 72,462 hours of management and technical assistance -- and facilitated \$304 million in combined business transactions. More than 1,200 new jobs resulted from new business start-ups.

MBDC AND IBDC PERFORMANCE HIGHLIGHTS

- o Clients assisted in FY 92 totaled 18,213 -- an increase of 9.7% over last year;*
- o Business Development Centers (BDC) secured 3,449 contracts, valued at \$1,027.7 billion in FY 92;*
- o Business Development Centers assisted 11,551 operating minority businesses;*
- o A total of 1,362 new minority businesses became operational with BDC assistance;*
- o Approximately 25% of the total clients assisted were minority female;*

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- o *Approximately 76% of business clients assisted had gross receipts under \$300,000; 14% had gross business receipts of \$300,000 or more, but less than \$1 million; and 10% had gross receipts of \$1 million or more;*
- o *Approximately 55% of procurement dollars came from the private sector; 20% came from state and local governments and 25% from the Federal Government; and*
- o *BDCs assisted 457 8(a) firms and helped them to obtain 169 8(a) contracts for a total of \$94 million*

CRO PROGRAM ACCOMPLISHMENTS

In FY 92, the Chicago Regional Office's 10-state delivery network assisted 3,086 clients -- provided 26,473.1 hours of management and technical assistance -- and generated more than \$156.4 million in combined business transactions (\$36.1 million in loan packaging and \$120.3 million in procurements). In the Chicago Region, 56.4% or \$69.4 million out of the \$120.3 million in procurement were construction-related.

And in the state of Illinois, this delivery network serviced 535 clients -- generated \$45.827 million in combined business transactions -- facilitated the establishment of 113 new businesses -- and created 1,199 new jobs.

MBDA CRO'S DELIVERY NETWORK

The MBDA Chicago Regional Office -- functioning as a regional advocate for minority business development throughout the ten-state Midwestern region -- monitors funded organizations and their consulting services to the agency's constituencies; implements departmental and headquarters's policies; and forges partnerships among Federal agencies, state and local governments, trade associations, chambers of commerce, corporate America, the private sector, and lending institutions to stimulate business access and foster business opportunities for the minority business sector of the U.S. economy.

The Chicago Regional Office provides direct oversight over the pilot-MEGA Center, ten (10) Minority Business Development Centers, one (1) Indian Business Development Center, the Minority Business Opportunity Committee (MBOC), totalling 13 projects in the region. They include:

The following is a breakdown of the MBDC/IBDC Program Fund for FY 1993:

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FUNDING ALLOCATION

FUNDED PROJECT	\$ FEDERAL	AUDIT	TOTAL FEDERAL	\$NON-FEDERAL	\$TOTAL
Cincinnati	\$ 165,000	\$ 4,125	\$ 169,125	\$ 29,846	\$ 198,971
Cleveland	\$ 184,260	\$ 4,607	\$ 188,867	\$117,599	\$ 306,466
Columbus (OH)	\$ 165,000	\$ 4,125	\$ 169,125	\$ 29,846	\$ 198,971
Dayton	\$ 165,000	\$ 4,125	\$ 169,125	\$ 85,346	\$ 254,471
Detroit	\$ 322,500	\$ 0	\$ 322,500	\$ 56,912	\$ 379,412
Gary	\$ 165,000	\$ 4,125	\$ 169,125	\$ 29,846	\$ 198,971
Indianapolis	\$ 165,000	\$ 4,125	\$ 169,125	\$ 29,846	\$ 198,971
Kansas City	\$ 184,260	\$ 0	\$ 184,260	\$ 32,516	\$ 216,776
Milwaukee	\$ 165,000	\$ 4,125	\$ 169,125	\$ 29,846	\$ 198,971
Minneapolis/St. Paul	\$ 165,000	\$ 4,125	\$ 169,126	\$ 29,846	\$ 198,971
St. Louis	\$ 230,400	\$ 0	\$ 230,400	\$ 40,659	\$ 271,059
Minnesota IBDC	\$ 165,000	\$ 4,125	\$ 169,125	\$ 0	\$ 169,125
MBOC	\$ 100,000	\$ 0	\$ 100,000	\$ 0	\$ 100,000
TOTALS:	\$2,341,420	\$37,607	\$2,379,027	\$512,108	\$2,891,135

CHICAGO FUNDED ORGANIZATIONS
FOR FISCAL YEAR 1993
(OCTOBER 1, 1992 - SEPTEMBER 30, 1993)

MBDC/IBDC LOCATION	NAME OF ORGANIZATION	TYPE OF ORGANIZATION	ETHNIC OWNERSHIP
CHICAGO MEGA CENTER 105 W. Adams St., 7th Fl. Chicago, IL 60603 312/977-9190	DAVID J. BURGOS & ASSOCIATES, INC.	FOR-PROFIT	HISPANIC
CINCINNATI MBDC 1821 Summit Rd., Ste. 111 Cincinnati, OH 45237-2810 513/679-6000	CINCINNATI MINORITY BUSINESS ASSISTANCE CORP.	NON-PROFIT	BLACK
CLEVELAND MBDC 601 Lakeside Ave., Ste. 335 Cleveland, OH 44114 216/664-4155	CITY OF CLEVELAND	CITY GOVERNMENT	-
DAYTON MBDC 1818 W. 3rd St. Dayton, OH 45417 513/263-6232	UNIVERSITY OF DAYTON	NON-PROFIT	-
DETROIT MBDC 26913 Northwestern Hwy., Ste. 400 Southfield, MI 48034 313/262-1967	GRANT THORNTON	FOR-PROFIT	NON-MINORITY

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MBDC/IBDC LOCATION	NAME OF ORGANIZATION	TYPE OF ORGANIZATION	ETHNIC OWNERSHIP
GARY MBDC 567 Broadway Gary, IN 46402 219/883-5802	GLOBETROTTERS ENG. CORP.	FOR-PROFIT	BLACK/ASIAN
INDIANAPOLIS MBDC 4755 Kingsway Dr., Ste. 103 Indianapolis, IN 46205 317/257-0327	GLOBETROTTERS ENG. CORP.	FOR-PROFIT	BLACK/ASIAN
KANSAS CITY MBDC 1101 Walnut St., Ste. 1600 Kansas City, MO 64106-2143 816/471-1520	GRANT THORNTON	FOR-PROFIT	NON-MINORITY
MILWAUKEE MBDC 1442 N. Farwell Ave., Ste. 500 Milwaukee, WI 53202 414/289-3422	GLOBETROTTERS ENG. CORP.	FOR-PROFIT	BLACK/ASIAN
MINNEAPOLIS MBDC 2021 E. Hennepin Ave., Ste. LL 35 Minneapolis, MN 55413 612/331-5576	METROPOLITAN ECONOMIC DEVELOPMENT ASSOC.	NON-PROFIT	MIXED

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MBDC/IBDC LOCATION	NAME OF ORGANIZATION	TYPE OF ORGANIZATION	ETHNIC OWNERSHIP
MINNESOTA IBDC Leech Lake Reservation P.O. Box 217 Tract 33, Facility Center Cass Lake, MN 56633-0217 218/335-8583	MINNESOTA CHIPPEWA TRIBE	NON-PROFIT	NATIVE AMERI- CAN
ST. LOUIS MBDC 500 Washington Avenue, Ste. 1200 St. Louis, MO 63101 314/621-6232	GRANT THORNTON	FOR-PROFIT	NON-MINORITY
MINORITY BUSINESS OPPORTU- NITY COMMITTEE (MBOC) 175 W. Jackson Blvd. Chicago, IL 60603	U.S. CENSUS BUREAU	FEDERAL AGENCY	-

At this time there are no proposals currently under consideration by the U.S. Department of Commerce to increase the number of cooperative agreements in the Midwest.

MEGA CENTER

The MEGA Center, operated by David J. Burgos & Associates, is located at 105 West Adams St., 7th Floor, Chicago, Illinois. The MEGA Center is funded through a \$1.8 million cooperative agreement and is supported by \$700,000 in private sector funds.

Functioning as a unique, one-stop business development consulting center, the MEGA Center offers one-on-one counseling by a multi-disciplined staff of 25 professionals. Its mission -- to provide the highest quality of services to minority clients in a principled and ethical manner which results in growth and profitability for a minority-owned and -operated enterprise. The MEGA Center Consortium represents the most credible and highly respected experts in the field of minority business development. David J. Burgos & Associates, Inc. serves as the prime contractor and provider of basic management and technical services.

Its consortium members include: Chicago International Development Corporation -- International Trade; Chicago Regional Purchasing Council -- Market Development and Research; Ralph G. Moore & Associates -- System Integration/Capital Development; Target Group -- Construction Assistance and Surety Bonding; and Women in Franchising -- Franchise Development and Training.

MEGA CENTER SATELLITE OFFICES

As an extension of the MEGA Center Program, two satellite offices, in the South side and West side of Chicago, augment the Center's services to inner-city communities by providing on-site services and information on market opportunities -- international trade, mergers and acquisitions, loan packaging, franchising, private and public sector procurement, and surety bonding. Clients seeking more specialized management and technical assistance are referred to the parent MEGA Center.

One of the satellite offices is located at the South Shore Enterprise Center, a division of The Neighborhood Institute (TNI). This institute, a non-profit affiliate of Shorebank Corporation -- a regulated bank holding company based in South Shore -- was established in 1978 with a commitment for the economic revitalization of South Shore.

The TNI satellite office is located at 1525 E. 53rd St. The other satellite location is at 2846 W. Cermak Rd.

MEGA CENTER ACCOMPLISHMENT

From the 1st quarter to the 2nd quarter of FY 93, the pilot-Minority Enterprise Growth Assistance (MEGA) Center's productivity increased from 62 clients to 162 clients being serviced; from 1,182 hours of management and technical assistance provided to 3,136.5 hours; from \$1.121 million in combined business transactions facilitated to \$6.447 million (\$1.1870 in financial packaging; \$5.260 million in procurement, respectively).

Amwest Surety Insurance Company, the 13th largest surety company in the United States, has joined in an innovative public/private partnership with the Minority Enterprise Growth Assistance (MEGA) Center in Chicago to help minority contractors obtain bonding for construction projects in Illinois and throughout the Midwest. The partnership is a major advance for minority-owned businesses. It has the potential to facilitate access to bonding, which is often a primary impediment for bidding on private and public projects.

Amwest has agreed to underwrite up to \$50 million in surety bonds to qualified minority-owned construction companies in the Midwest, who are clients of the MEGA Center. As the nation's largest specialty surety company for small contractors, Amwest will offer streamlined application procedures, special underwriting criteria and local approval authority from its Chicago Branch office. Whenever possible, collateral requirements will be eliminated by use of the U.S. Small Business Administration (SBA) or Illinois Job Development Authority (JDA) bond guarantee programs. The company is U.S. Treasury listed and carries the prestigious "A" rating (Excellent) from A.M. Best.

OVERVIEW OF CRO ADVOCACY ACTIVITIES

The CRO has taken the initiative in coordinating Minority Business Enterprise (MBE) activities with other public and private sector organizations in the Chicago-metropolitan area. A prime example of this effort is the relationship between MBDA's CRO and the Chicago Regional Purchasing Council (CRPC). Each year, the CRPC sponsors the Chicago Business Opportunity Fair (CBOF), the premier trade affair devoted to minority procurement in the Nation. The CBOF is the forerunner of our Nation's minority purchasing focus, having evolved in the National Minority Supplier Development Council, a network of 44 regional purchasing councils across the country. More than 4,000 representatives from minority companies, leading national corporations and government agencies participate in this annual event. MBDA's funded network throughout the Midwest has been allowed to participate at a reduced cost to ensure that their clients -- minority-owned firms -- can expand their business on a regional and/or national level.

The CRO has also forged a working relationship with other Federal, state and local government agencies, which are actively involved in minority business development promotion. For example, the CRO is working with the U.S. Department of Transportation's Federal Transit Administration (FTA) to develop a contracting program that will increase MBE access and participation according to the Intermodal Surface

Transportation Efficiency Act of 1991, Public Law 102-240, section 1003(b)(1). This act requires DOT to expend not less than 10 percent of Federal highway and transit funds with small disadvantaged business concerns.

In addition, the CRO maintains close contact with the Chicago Regional Administrator of the U.S. Small Business Administration (SBA), including other SBA District Offices. This coordinated effort has been undertaken to ensure that the agency's delivery network continues to maintain a successful level of business activities with the SBA and all of its programs, including the 8(a) application and loan packaging.

The CRO also works closely with other Federal agencies -- Commerce's Economic Development Administration and International Trade Administration, U.S. Department of Housing and Urban Development, U.S. Department of Energy, the U.S. Environmental Protection Agency and the U.S. Department of Defense -- to market and promote increased business opportunities for MBEs.

On the State level, the CRO has access to the Governor's Office in Illinois and other state-wide departments which are actively involved in economic development and minority business development. During the annual observance of Minority Enterprise Development (MED) Week, the SBA, state officials, the private sector and the civic community in Chicago honor the contributions of U.S. small, minority-owned companies to the U.S. economy.

CHICAGO REGIONAL OFFICE
PERSONNEL STAFFING

FISCAL YEARS	PERSONNEL		JUSTIFICATION
	CEILING	STAFFING	
1989	14 PFP 1 PPT	10 PFP 1 PPT	MBDA'S CEILING AND STAFFING REPORT (4/89)
1990	10 PFP 1 PPT	10 PFP 1 PPT	FTP as authorized PPT as authorized 3/90*
1991	10 PFP 1 PPT	10 PFP 1 PPT	FTP as authorized PPT as authorized 3/90*
1992	10 PFP 1 PPT	09 PFP 2 PPT	Resignation/voluntary
1993	10 PFP 1 PPT	08 PFP 0	Resignation/voluntary Retirement Termination - death

*MBDA PERSONNEL STATUS REPORT (3/20/90)

PFP = Permanent Full-Time Position

PPT = Permanent Part-Time Position

To analyze the Chicago staffing in Fiscal Year 1990 versus Fiscal Year 1993, we have prepared the following information:

Chicago Regional Staffing

<i>Staffing - September 30, 1990</i>	<i>Staffing - June 30, 1993</i>
<i>Regional Director (1)</i>	<i>Regional Director (1)</i>
<i>Chief, Business Development Group (1)</i>	<i>Deputy Regional Director (1)</i>
<i>Business Development Specialist (4)</i>	<i>Business Development Specialist (3)</i>
<i>Administrative Technician (1)</i>	<i>Administrative Technician (1)</i>
<i>Secretary (1)</i>	<i>Secretary (1)</i>
<i>Business Development Clerk (1)</i>	
<i>Clerk-Typist (2)</i>	<i>Clerk-Typist (1)</i>

For several years, the total number of staff positions in the Chicago Region has declined. This reduction is due, in part, to reductions in MBDA-funded projects, with a corresponding reduction in authorized positions.

In June 1993, then-Acting Director Loretta Young authorized recruitment for five (5) new positions in the Chicago Region, which would increase the number of full-time positions from 8 to 13. Filling these new positions is contingent upon the agency's FY 94 appropriations by Congress.

This increase will enable the region to perform its monitoring and evaluation of projects more effectively and efficiently and also enable the Business Development Specialists to conduct advocacy activities more aggressively in tandem with the Agency's mission.

OIG AND GAO DEFICIENCIES OR PROBLEMS

There have been no recent deficiencies or problems noted or observed in MBDA programs by the Commerce OIG or GAO. However, in fiscal year 1991, the Office of Management and Budget (OMB) designated MBDA as a high risk concerning management of its business development centers. The high risk designation was based on deficiencies and problems in the management of these centers observed and noted in the past by the OIG and GAO. During fiscal year 1991, MBDA took positive action with regard to its management problems, to include reducing its backlog of uncollected debts and recognizing the need for better control over its business development centers. The OIG in its Semiannual

Report to Congress for the period October 1990 to March 1991 recognized MBDA's achievements. The OMB recognized MBDA's positive actions and removed the high risk designation in December 1991.

CONCLUSION

In conclusion, we are proud to be part of the President's economic agenda. As Commerce Secretary Ronald H. Brown has stated, we are "absolutely committed to enhancing the effectiveness of MBDA" as we believe it can be "important in trying to rebuild the economies of some of our distressed urban and rural areas," and MBDA "can play an effective role in stimulating minority businesses." We ask for your support as we go about rebuilding MBDA with an enhancement of its role in minority entrepreneurship. As a demonstration of our commitment to minority business development, MBDA's programs are in a "unique position to support that goal and to ensure that new businesses are able to make long-term contributions to our nation's economy."

Mr. Chairman, this ends my written statement for the record. Thank you for the opportunity to discuss this vital subject.



CHICAGO URBAN LEAGUE

Affirmative Action Division

1346 SOUTH MICHIGAN CHICAGO, ILLINOIS 60605 312/663-9216 FAX 312/663-9809

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United Way

July 9, 1993

The Honorable John M. Spratt, Jr.
Congress of the United States
House of Representatives
Committee on Government Operations
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Congressman Spratt:

The Chicago Urban League appreciates the opportunity to provide a written statement for the Commerce, Consumer, and Monetary Affairs Subcommittee hearing on minority- and women-owned business issues.

We have directed our comments on the importance of monitoring and the compliance of procurement practices to ensure minority- and women-owned businesses have access to the purchasing process. We have also included for the record, six applicable Chicago Urban League research reports as attachments to our statement.

Again, thank you for the opportunity to participate on such an important issue.

Sincerely,

Suzanne A. Daniel
Vice President

SAD/jns

Attachments

75th Anniversary

Learning from the past...

...Looking to the future

Education

Economic Development

Community Empowerment

1916 - 1991

THE CHICAGO URBAN LEAGUE
WRITTEN STATEMENT
FOR
SUBCOMMITTEE ON COMMERCE, CONSUMER AND
MONETARY AFFAIRS

JULY 12, 1993

On behalf of the Chicago Urban League, thank you for the opportunity to address this subcommittee. The Chicago Urban League, founded 77 years ago, is the oldest and largest race relations organization in Chicago. The League's mission is to eliminate racial discrimination and to work for the achievement of equal opportunity and parity for African Americans, other minorities, and the poor in every phase of American life. We come before you today to discuss some of the findings of our research on minority business development.

Purchasing Policies and Business Development

Encouraging economic development in minority communities has been the goal of numerous federal, state and local policies. Unfortunately, the results of these policies have often been disappointing. Minority business ownership rates continue to lag behind rates for nonminorities and many predominantly minority communities remain in desperate need of employment opportunities.

As the public sector attempts to design policies to encourage minority business development, it continually confronts issues related to improving access to government contracts. For several decades, the Chicago Urban League has been involved in working with state and local governments on a wide area of business development policies, especially in the area of government procurement. Our experiences with state and local purchasing is relevant to this subcommittee as it addresses changes in federal purchasing programs.

Strong and Effective Program Monitoring

Government purchasing represents real and significant opportunities for business development in a wide range of industry sectors.¹ However, access to such opportunities is often limited for small and minority-owned businesses. For small businesses generally,

¹Nikolas C. Theodore, *The Role of Set-Asides in Minority Business Development: An Econometric Analysis*, Chicago Urban League, September 1992.

the government purchasing process is often skewed towards larger business access, thus precluding small business involvement in any meaningful way. For minority-owned businesses, barriers to government purchasing exist not only due to size (minority-owned businesses are typically smaller than nonminority-owned businesses), but also due to discriminatory market practices.²

Governments have attempted to implement policies and programs designed to ensure access to the purchasing process. The federal government, through its SBA and DBE programs, and state and local governments through affirmative action programs have attempted to design policies that would increase small and minority-owned business participation in government contracting, and thus aid in business development.

Central to the success of these programs is the degree to which the monitoring and compliance components are effectively administered. In Chicago, several local governments have created affirmative action policies that are, on paper, effective programs designed to open up purchasing opportunities for small and minority-owned businesses. However, many of these governments have failed to adequately finance and administer strong and effective monitoring and compliance components, and thus these programs have not fully served to reduce barriers to fuller participation in purchasing. This committee should assure that the SBA's 8(a) and DBE programs have effective monitoring and compliance components and that these components are funded at the levels needed to assure that the intentions of the programs are carried out to their fullest extent. Monitoring and compliance administration are cost effective for governments to run, as they assure that the beneficiaries of the policies are the intended classes of businesses (thus reducing costly fraud and abuse), and they give the government critical feedback as to which policies do and do not work to reduce barriers to purchasing. Only

²See Joseph S. Moag, Susan E. Nicol, and Nikolas C. Theodore, *Discrimination Against Minority and Women Business Enterprises in Cook County 1989-1991*, Chicago Urban League, December 1992; and Nikolas C. Theodore, *Discriminatory Barriers to the Development of Minority and Women Prime Contractors in Cook County*, Chicago Urban League, January 1993.

through actively monitoring the use and outcomes of these programs can these programs achieve their goals.

Purchasing Programs Work Best in Conjunction with Centralized Administration

Effective and efficient government purchasing requires that the procurement process be structured to achieve maximum economic efficiencies while at the same time providing maximum opportunity for small and minority-owned business involvement. The structure that is needed to meet both of these goals is centralized purchasing administration.

While many functions of government would benefit from decentralized management, purchasing would not. League research into the purchasing process at the Chicago Public Schools demonstrates clearly that when governments decentralize the purchasing function (decentralize planning, coordination and responsibility), procurement becomes non-competitive, cost-inefficient, and fails to achieve affirmative action goals for minority-owned business involvement.³ Purchasing requires high degrees of technical and legal expertise, planning and coordination in order to be handled efficiently and effectively. Decentralization fails to provide the purchasing function with these requisite administrative capacities.

The State of Illinois is currently considering legislation which would follow the American Bar Association's recommendations for the creation of a centralized purchasing function through the establishment of a Chief Procurement Officer.⁴ This office would set

³Joseph S. Moag, Susan E. Nicol and Nikolas C. Theodore, *The Limits of School-Based Procurement: Cost and Quality Inefficiencies at the Chicago Public Schools*, Chicago Urban League, September 1992; and Joseph S. Moag and Nikolas Theodore, *Maintaining Set-Aside Programs Under School Decentralization: A Review of Legal Mandates*, Chicago Urban League, December 1992.

⁴Joseph S. Moag and Nikolas C. Theodore, *Improving Government Contracting Opportunities for Small Businesses in Illinois: Report Presented to the Blue Ribbon Committee on State Procurement*, March 29, 1993, State Capitol, Springfield, Illinois, Chicago Urban League.

purchasing practices and policies for all state agencies, have oversight over annual purchase planning for all state agencies, and have ultimate responsibility for the state's ability to meet its cost and quality goals in purchasing. By centralizing the planning, coordination and responsibility of purchasing for the entire state, the state will be able to take greater advantage of scale economies when its myriad user agencies buy goods and services. This committee should follow this model and seek to increase the centralization of the federal government's purchasing function. Increased centralization will not only increase the cost and quality efficiencies of the government's procurement function, but will work to increase the ability for the government to improve small and minority-owned businesses' access to the purchasing process through centralized planning and coordination.

SUBCOMMITTEE NOTE:

The report attached to the Chicago Urban League's statement, "The Limits of School-Based Procurement: Cost and Quality Inefficiencies at the Chicago Public Schools", September 1992, (Chicago Urban League, Department of Research and Planning), has not been included in the hearing transcript, to reduce government printing costs. But it is available for review in the Subcommittee's office or can be obtained directly from the Chicago Urban League.

Mr. SPRATT. Well, we now have a full panel of witnesses, and we have Mr. Copelin first to lead off. Mr. Williams has just arrived.

Mr. WILLIAMS. Yes.

Mr. SPRATT. And Mr. Williams, you are with?

Mr. WILLIAMS. Target Group.

Mr. SPRATT. OK, welcome. We are glad to have you.

Mr. BOWIE. Mr. Chairman?

Mr. SPRATT. Yes, sir?

Mr. BOWIE. I am the 8(a) association treasurer, I would like to sit in until Mr. Ramirez gets here.

Mr. SPRATT. Come on forward until he arrives, if you would like to do that. Excuse me, sir, would you identify yourself again, just for the record?

Mr. BOWIE. I am Elijah Eowie, president and owner of Bowie Construction, Inc.

Mr. SPRATT. Welcome, thank you for coming.

Mr. Copelin, welcome. You came up here all the way from New Orleans I understand.

Mr. COPELIN. Yes, sir.

Mr. SPRATT. The floor is yours. And as I said, your testimony has been made part of the record, so you can summarize it as you see fit.

STATEMENT OF SHERMAN COPELIN, PRESIDENT, NATIONAL BUSINESS LEAGUE, AND SPEAKER PRO TEMPORE, LOUISIANA HOUSE OF REPRESENTATIVES

Mr. COPELIN. Thank you, Mr. Chairman.

To the Honorable John Spratt, Jr., chairman of the U.S. House of Representatives, Subcommittee on Commerce, Consumer, and Monetary Affairs, and to the Honorable Congressman Rush, distinguished panelists, colleagues, and friends.

As president of this Nation's oldest national business organization—the National Business League—it is an honor to appear before you this morning and to share with you the views and experiences of the league's membership regarding what we consider to be four broad, major issues facing the African American business community today:

One, the longstanding problems involved in obtaining surety bonding and financing; two, the severely limited access of African American businesses to sources of both debt and equity capital; three, the perhaps well-intentioned, but historically insufficient and problematic Federal response to the problems and issues surrounding African American, as well as other minority, business development; and four, the negative perception of minority business in mainstream American business circles.

Before I get into the central portion of my testimony, Mr. Chairman, I would like to offer you a brief historical overview of the National Business League.

The NBL was founded on August 23, 1900, in Boston, MA by Dr. Booker T. Washington and a group of 400 African American delegates from throughout the United States. The NBL was officially incorporated in New York City in 1905 as the National Negro Business League.

The organization was renamed and reincorporated in Washington, DC in 1966, when it became the National Business League. NBL headquarters currently are located in Washington, DC at 1511 K Street, NW, suite 432.

Having been established and operating 12 years before the U.S. Chamber of Commerce, the National Business League, with its constituency and membership crossing all business lines, has been an important vehicle for black business persons and the African American community, in general.

The league began as a federation of individuals and firms dedicated to the financial and commercial development of minority Americans. It has sought and continues to seek, to eliminate the exclusion of the African American business sector from national economic priorities, not simply for its own benefit, but for the growth and the stability of the national economy as well.

Virtually every major national African American trade, professional and business organization was formed within the NBL, such as: The National Funeral Directors, 1907; the National Bankers Association, 1915; the National Association of Tailors, Designers, and Dry Cleaners, 1915; the National Negro Press Association, 1919; the National Negro Finance Corporation, 1924; and the National Association of Colored Merchants, 1928—just to name a few.

In 1928, NBL also conducted one of the first comprehensive surveys of African American businesses in cooperation with the Laura Spelman Foundation; 2,817 businesses were surveyed and 17,697 persons within those enterprises were studied over a period of 1 year.

In 1929, the league, in cooperation with the Colored Merchants Association, the U.S. Department of Commerce, and the Associated Negro Press sponsored the first "Campaign for Better Negro Business." Here, African American merchants were organized into cooperative buying associations and were trained in lecture demonstrations on key business topics.

As the Nation's oldest business and trade association, NBL's membership encompasses a broad spectrum of business enterprises ranging from international trading firms and high-technology manufacturers to small retail and service-providing companies and sole proprietorships.

Over the past 92 years, membership has grown throughout the country in 37 States and the District of Columbia. The league's national network includes 127 chartered chapters, a vibrant network of National Student Business League chapters on 30 college and university campuses and a national coalition of 30 association affiliates organized and recently reactivated as the National Council for Policy Review [NCPR]. The NCPR is designed to represent every facet of Minority Business Enterprise [MBE] active in the country.

During its long and distinguished history, advocacy has been the central role of NBL on the national, regional, and local levels. The league continues to promote and advocate the full development of available and competitive African American entrepreneurial class, as an essential part of any strategy, which seeks to lift this nation's largest and historically disenfranchised minority group into the mainstream of American society.

The negative perception of African American business enterprise: In both its interim and final reports to the 102d Congress, the U.S. Commission on Minority Business Development highlighted the importance of the effect that the negative perception of African American and other minority business has on their growth and development.

In its interim report, the Commission offered a frank and honest discussion, which supports the NBL's sincere belief that most of the other problems faced by African American businesses stem from a pervasive and extremely negative perception that black businesses and their owners are not good financial risks; that black businesses are somehow second rate; that black business owners will not pay their debts and are incapable of operating profitably in a competitive mainstream business environment.

Despite numerous studies and statistics which clearly demonstrate that, all things being equal, African American businesses perform no worse than their comparable mainstream counterparts, there is widespread reluctance on the part of the commercial banking, venture capital, surety bond, and capital market industries to take the same risk with a black entrepreneur that they would readily do with a white one.

This negative perception of black business is at the very core of the three remaining areas where NBL members and their constituents have witnessed problems.

The issue of surety bonding: Historically, African American and other minority contractors have complained about the difficulties involved in securing surety bonding. This fact has frequently been cited to explain the low numbers of minority contractors in medium and large scale government construction projects.

In 1987, for example, the typical minority-owned firm's total annual receipts in the construction industry were only 45 percent of the average receipts for all U.S. construction firms. Though detailed statistics were not available at the time this presentation was prepared, there is a well-founded assumption that the percentage for African American-owned construction firms is far lower than the 45 percent overall average for all minority construction firms.

While there have been well-intentioned efforts, both public and private, to attempt to address the problems of securing performance or payment bonds, there has been no significant increase in the number or percentage of African American construction firms which have been able to secure adequate bonding.

The National Business League is convinced that a large part of the failure of public and private sector efforts to increase acquisition of surety bonds for African American and other minority firms is a direct result of the negative perception regarding these firms, which are more often than their white counterparts to be considered bad risks.

The significance of the construction industry in the creation of jobs, especially for minority Americans, makes the issue of surety bonding one which demands immediate attention and action.

Current plans of the Clinton administration to launch a major infrastructure rebuilding effort in the Nation's cities and States suggests the possibility of a boom in the construction industry. African

American and other minority construction firms need adequate surety bonding so that they too can qualify to compete for medium and large scale construction projects.

I am certain that most of us in this room today are aware of the severe limitations and cultural barriers that have historically blocked our full access to capital. And, I'm also sure that we all know that it is the lack of access to capital which is the most frequently cited obstacle facing minority business formation and development.

For these reasons and because of the necessity to limit my comments here, I will not go into any further detail regarding the nature of this problem. We are all fully aware that it exists and that we must come up with innovative ways to redress this longstanding grievance.

In existence for more than half a century before the passage of the Small Business Administration Act of 1953, the National Business League has the unique perspective of having been an active participant in virtually every minority-focused business program ever initiated on Capitol Hill.

We are fully aware that neither the SBA nor its 8(a) and 7(j) programs were originally designed to assist minority business. NBL was there when Congress passed the first Small Business Act—the Small Business Act of 1942—which created the Smaller War Plants Corp., whose stated purpose was to provide small business with the tools that would allow their production of goods and services needed in the Second World War.

The NBL was also there in January 1946 when this agency was shut down and its more important powers transferred to the Reconstruction Finance Corp. and a newly established Office of Small Business within the U.S. Department of Commerce.

It was not until the 1960's that the Federal Government made any meaningful efforts to assist minority business, with primary emphasis on righting some of the wrongs that had been experienced for almost a century by this Nation's black business class.

While many of the Federal Government's efforts have results in at least temporary improvements for minority business—especially many of the programs implemented and conducted during the 1970's such as Executive Order 11625—the Office of Minority Business Enterprise and the establishment of the Minority Enterprise Small Business Investment Co. Many Federal programs actually impede and hinder minority business development, rather than encouraging their growth and development.

For example, the Small Business Administration: One, has not been able to process applications within the 90-day period mandated by the Business Opportunity Development Reform Act of 1988; two, has missing or inaccurate data in its Financial Information System, which is its primary source for managing the 8(a) program; and three, does not know the full extent of management and technical assistance provided to 8(a) firms, because it does not track the various forms of assistance provided by contractors and others.

It would be just as easy to cite problems in other agencies with programs geared to assist minority business, so I do not want to leave the impression that I am picking on SBA.

Possible solutions and recommendations: I would like to offer the following recommendations and possible solutions for your consideration:

A. The National Business League strongly believes that the effect of negative perceptions regarding minority persons and their businesses is perhaps the single most important factor retarding business formation and development within the context of the American free market enterprise system itself.

We concur with the thrust of the recommendation of the U.S. Commission on Minority Business Development, which stated:

First, the Commission believes that the continued use of the term "socially and economically disadvantaged small business concern" is inappropriate because it stresses the status of discrimination rather than the effects of discrimination on the Nation's economic system. Therefore, the Commission recommends that the term "Historically Underutilized Business" should be used in lieu of "socially and economically disadvantaged small business concern" wherever that latter term may now appear in law or regulation.

It is equally important, however, that Federal legislation must be passed which calls for punitive action to be taken against those financial, insurance, and commercial entities who clearly demonstrate a documented pattern of bias against African American and other minority-owned business.

B. To begin to resolve the problems of obtaining surety bonding, we endorse implementation of the Office of Federal Procurement Policy Letter No. 91-4, which permits Federal agencies to accept irrevocable letters of credit in lieu of performance or payment bonds. The SBA's Surety Bond Guarantee Program will benefit from a thorough review as well.

C. We also recommend Federal efforts that would encourage the private sector to proffer solutions based upon its resources. In fact, the National Business League is currently in the process of structuring a package designed to specifically address the issue of bonding in the minority business community.

D. We must enforce penalties against those financial and commercial entities that would continue to shut the door, that would allow us to obtain access to adequate capital.

E. In general, we would recommend a more comprehensive, unified Federal approach to assisting and promoting minority business development. There are a number of very good ideas already on the table, but the key element which any plan must have is a comprehensive, unified Federal minority business enterprise policy formulation and implementation process.

We cannot continue to force our people to play the Federal agency shuffle game.

I would like to close with a quote from the founder of the National Business League, Dr. Booker T. Washington, who said:

No people ever got upon its feet and obtained the respect and confidence of the world, which did not lay its foundations in successful business enterprise. . . . Although business and commerce do not embrace all the interests of our people, we believe that without a solid economic foundation, it is impossible for any race of people to make much enduring or much permanent progress in any country in the world."

Thank you, Mr. Chairman, Mr. Rush, and members of the subcommittee.

Mr. SPRATT. Thank you very much, Mr. Copelin. We will come back to because you raised a number of points that we want to pursue further. But let us take the testimony from the whole panel and then put questions to you individually after we have it all in the record.

[The prepared statement of Mr. Copelin follows:]

TESTIMONY
OF
THE HONORABLE SHERMAN N. COPELIN, JR.

Speaker Pro Tempore
Louisiana House of Representatives

and

President of the National Business League

Before
THE U.S. HOUSE OF REPRESENTATIVES

Subcommittee on Commerce, Consumer
and Monetary Affairs

The Ceremonial Courtroom
219 South Dearborn Avenue
Chicago, Illinois

July 12, 1993

I. Introductory Remarks

To the Honorable John M. Spratt, Jr., Chairman, the United States House of Representatives, Subcommittee on Commerce, Consumer and Monetary Affairs, distinguished Subcommittee members, fellow panelists, colleagues and friends.

As president of this nation's oldest national business organization -- The National Business League -- It is an honor to appear before you this morning, and to share with you the views and experiences of the League's membership regarding what we consider to be four broad, major issues facing the African American business community today:

1. The long-standing problems involved in obtaining surety bonding and financing;
2. The severely limited access of African American businesses to sources of both debt and equity capital;
3. The perhaps well-intentioned, but historically insufficient and problematic Federal response to the problems and issues surrounding African American, as well as other minority, business development; and,
4. The negative perception of minority business in mainstream

American business circles.

II. Brief Description of the National Business League (NBL)

Before I get into the central portion of my testimony, however, I would like to offer you a brief historical overview of the National Business League.

Founded on August 23, 1900 in Boston, Massachusetts by Dr. Booker T. Washington, and a group of 400 African American delegates from throughout the United States, the NBL was officially incorporated in New York City in 1905 as the National Negro Business League.

The organization was renamed and re-incorporated in Washington, D.C. in 1966, when it became the National Business League. NBL headquarters are currently located in Washington, D.C. at 1511 K Street, N.W., Suite 432.

Having been established and operating 12 years before the U.S. Chamber of Commerce, the National Business League, with its constituency and membership crossing all business lines, has been an important vehicle for Black business persons and the African American community, in general.

The League began as a federation of individuals and firms dedicated to the financial and commercial development of minority Americans. It has sought, and

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continues to seek, to eliminate the exclusion of the African American business sector from national economic priorities, not simply for its own benefit, but for the growth and the stability of the national economy as well.

Virtually every major national African American trade, professional and business organization was formed within the NBL, such as:

- o The National Funeral Directors, 1907
- o The National Bankers Association, 1915
- o The National Association of Tailors, Designers & Dry Cleaners, 1915
- o The National Negro Press Association, 1919
- o The National Negro Finance Corporation, 1924
- o And, The National Association of Colored Merchants, 1928, just to name a few.

In the year 1928, NBL also conducted one of the first comprehensive surveys of African American businesses in cooperation with the Laura Spelman Foundation. Two thousand eight hundred and seventeen (2,817) businesses were surveyed and 17,697 persons within those enterprises were studied over a period

of one year.

In 1929, the League, in cooperation with the Colored Merchants Association, the U.S. Department of Commerce and the Associated Negro Press, sponsored the first "Campaign for Better Negro Business." Here, African American merchants were organized into cooperative buying associations and were trained in lecture-demonstrations on key business topics.

As the nation's oldest business and trade association, NBL's membership encompasses a broad spectrum of business enterprises ranging from international trading firms and high technology manufacturers to small retail and service-providing companies and sole proprietorships.

Over the past 92 years, membership has grown throughout the country in 37 states and the District of Columbia. The League's national network includes 127 chartered chapters, a vibrant network of National Student Business League (NBSL) chapters on 30 college and university campuses, and a national coalition of 30 association affiliates organized and recently reactivated as the National Council for Policy Review (NCPR). The NCPR is designed to represent every facet of Minority Business Enterprise (MBE) activity in the country.

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During its long and distinguished history, advocacy has been the central role of NBL on the national, regional and local levels. The League continues to promote and advocate the full development of a viable and competitive African American entrepreneurial class, as an essential part of any strategy, which seeks to lift this nation's largest and historically disfranchised minority group into the mainstream of American society.

III. Discussion: Current Problems Facing African American business

A. Negative Perception of African American business enterprise

In both its Interim and Final Reports to the 102nd Congress, the United States Commission on Minority Business Development highlighted the importance of the effect that the negative perception of African American and other minority business enterprises has on their growth and development.

In its Interim Report, The Commission offered a frank and honest discussion, which supports the National Business League's sincere belief that most of the other problems faced by African American businesses stem from a pervasive and extremely negative perception that Black Businesses and their owners are not good financial risks; that Black Businesses are somehow second-rate; that Black business owners will not pay their debts and are incapable of operating, profitably, in a competitive, mainstream business environment.

Despite numerous studies and statistics which clearly demonstrate that -- All else being equal -- African American businesses perform no worse than their comparable mainstream counterparts, there is a widespread reluctance on the

part of the commercial banking, venture capital, surety bond, and capital market industries to take the same risk with a Black entrepreneur that they would readily do with a white one.

This negative perception of Black Business is at the very core of the three remaining areas where NBL members and their constituents have witnessed problems:

B. The Issue of Surety Bonding

Historically, African American and other minority contractors have complained about the difficulties involved in securing surety bonding. This fact has frequently been cited to explain the low numbers of minority contractors in medium and large scale government construction projects.

In 1987, for example, the typical minority owned firm's total annual receipts in the construction industry were only 45 percent of the average receipts for all United States construction firms. Though detailed statistics were not available at the time this presentation was prepared, there is a well-founded assumption that the percentage for African American owned construction firms is far lower than the 45 percent over-all average for all minority construction

firms.

While there have been many well-intentioned efforts, both public and private, to attempt to address the problems of securing performance or payment bonds, there has been no significant increase in the number or percentage of African American construction firms which have been able to secure adequate bonding.

The National Business League is convinced that a large part of the failure of public and private sector efforts to increase acquisition of surety bonds for African American and other minority firms is a direct result of the negative perception regarding these firms, which are more often than their white counterparts to be considered bad risks.

The significance of the construction industry in the creation of jobs, especially for minority Americans, makes the issue of surety bonding one which demands immediate attention and action.

Current plans of the Clinton Administration to launch a major infrastructure rebuilding effort in the nations cities and states suggests the possibility of a boom in the construction industry. African American and other

minority construction firms need adequate surety bonding so that they too can qualify to compete for medium and large scale construction projects.

C. Severely Limited Access to Capital

I'm certain that most of us in this room today are aware of the severe limitations and cultural barriers that have historically blocked our full access of to capital. And, I'm also sure that we all know that it is the lack of access to capital which is the most frequently cited obstacle facing minority business formation and development.

For these reasons and because of the necessity to limit my comments here I will not go into any further detail regarding the nature of this problem. We are all fully aware that it exists, and that we must come up with innovative ways to redress this long-standing grievance.

D. Federal Programs to Promote Minority Business Development

In existence for more than half a century before the passage of the Small Business Administration Act (SBA) of 1953, the National Business League has the unique perspective of having been an active participant in virtually every minority focused business program ever initiated on Capitol Hill.

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We are fully aware that neither the SBA nor its 8A and 7J programs were originally designed to assist minority business. NBL was there when Congress passed the very first Small Business Act -- The Small Business Act of 1942 -- which created the Smaller War Plants Corporation (SWPC), whose stated purpose was to provide small business with the tools that would allow their production of goods and services needed in the Second World War.

The NBL was also there in January 1946, when this agency was shut down and its more important powers transferred to the Reconstruction Finance Corporation (RFC) and a newly established Office of Small Business within the U.S. Department of Commerce.

It was not until the 1960s that the Federal government made any meaningful efforts to assist minority business, with primary emphasis on righting some of the wrongs that had been experienced for almost a century by this nation's Black business class.

While many of the Federal government's efforts have resulted in at least temporary improvements for minority business -- Especially many of the programs implemented and conducted during the 1970s -- Such as Executive

Order 11625, the Office of Minority Business Enterprise, and the establishment of the Minority Enterprise Small Business Investment Company (MESBIC). Many federal programs actually impede and hinder minority business development, rather than encouraging their growth and development.

For example, the Small Business Administration:

1. Has not been able to process applications within the 90 day period mandated by The Business Opportunity Development Reform Act of 1988;
2. Has missing or inaccurate data in its Financial Information System, which is its primary source for managing the 8A Program;
3. Does not know the full extent of management and technical assistance provided to 8A firms, because it does not track the various forms of assistance provided by contractors and other;

It would be just as easy to cite problems in other agencies with programs geared to assist minority business.

IV. Possible Solutions and Recommendations

I would like to offer the following recommendations and possible solutions

for your consideration:

- A. The National Business League strongly believes that the effect of negative perceptions regarding minority persons and their businesses is perhaps the single most important factor retarding business formation and development within the context of the American free market enterprise system itself.

We concur with the thrust of the recommendation of the U.S. Commission on Minority Business Development, when it stated:

"First, the Commission believes that the continued use of the term 'socially and economically disadvantaged small business concern' is inappropriate because it stresses the status of discrimination rather than the effects of discrimination on the nation's economic system. Therefore, the Commission recommends that the term 'Historically Underutilized Business' (HUB) should be used in lieu of 'socially and economically disadvantaged small business concern' wherever that latter term may now appear in law or regulation."

It is equally important, however, that Federal legislation must be passed, which calls for punitive action to be taken against those financial, insurance and commercial entities who clearly demonstrate a documented pattern of bias against African American and other minority owned businesses.

- B. To begin to resolve the problems of obtaining surety bonding, we endorse implementation of the Office of Federal Procurement Policy (OFPP) Letter No. 91-4, which permits federal agencies to accept irrevocable letters of credit in lieu of performance or payment bonds. The SBA's Surety Bond Guarantee Program would benefit from a thorough review as well.
- C. We would also recommend federal efforts that would encourage the private sector to proffer solutions based upon its resources. In fact, the National Business League is currently in the process of structuring a package designed to specifically address the issue of bonding in the minority business community.

D. We must enforce penalties against those financial and commercial entities that would continue to shut the door, that would allow us to obtain access to adequate capital.

E. In general, we would recommend a more comprehensive, unified federal approach to assisting and promoting minority business development. There are a number of very good ideas already on the table, but the key element which any plan must have is a comprehensive, unified federal minority business enterprise policy formulation and implementation process.

We cannot continue to force our people to place the federal agency shuffle game.

I'd like to close with a quote from the founder of the National Business League, Dr. Booker T. Washington, who said:

"No people ever got upon its feet and obtained the respect and confidence of the world, which did not lay its foundations in successful business enterprise...Although business and commerce do not embrace all the interests of our people, we believed that without a solid economic

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foundation, it is impossible for any race of people to make much enduring
or much permanent progress in any country in the world."

Thank you.

Mr. SPRATT. I believe Mr. Ramirez is here. We have your testimony, and we will make it part of the record. You can read it or summarize it as you see fit.

STATEMENT OF DAVID RAMIREZ, PRESIDENT, ILLINOIS SECTION 8(A) CONTRACTORS ASSOCIATION

Mr. RAMIREZ. Thank you very much.

Good morning, Mr. Chairman. My name is David Ramirez, president of the Illinois 8(a) Contractors Association here in Illinois. I would like to present the rest of the executive directors that are present from the Illinois 8(a) Contractors Association. Would you gentlemen please stand? And other 8(a) contractors, would you please stand?

[Members of the audience rise.]

Mr. RAMIREZ. Basically our 8(a) Contractors Association is comprised of architects and engineers, nonprofessional, professional, consultants, manufacturers and distributors, and, of course, contractors.

I would like to thank the members of the Commerce, Consumer, and Monetary Affairs Subcommittee for the opportunity to present the Illinois 8(a) Contractors Association's view of the SBA program and other minority businesses.

I would like to state that the Illinois Contractors Association is composed of various businesses. We are referred to as contractors; we mean businesses that deal in contracting with the Federal Government.

We recognize that there are many initiatives to help minority businesses at the city, county, State, and Federal level, as well as in the private sector. The objective is to enable minority businesses to become self-sustaining in a competitive atmosphere.

At the Federal level, you have various groups and programs: One, Small Business set-aside Programs; two, Small Business Subcontracting Programs; three, Small and Disadvantaged Business set-aside Program; four, Small and Disadvantaged Business Subcontracting Program; and five, of course, you have the 10 percent preference plan under that SDB, and the labor surplus area and of course the 8(a) program.

We have other programs at the State level, such as the Illinois Department of Transportation and the Capital Development Board, which are meeting the 10-percent goals.

We have 25-percent goals here in the city of Chicago, 25 percent through the county, and other agencies such as water reclamation, METRA, Chicago Transit Authority, which is funded by UMTA, and, of course, Navy Pier and other various agencies here in the city.

If every program were to be awarded for set-aside goals in contracts, there would hardly be enough minority contractors or suppliers to meet those requirements. But despite all these efforts, the question still remains whether enough disadvantaged are benefiting from these programs and achieving their goal of joining the mainstream of American business.

The Federal Government currently employs individuals known as Procurement Center Representatives, known as the PCR's, whose job it is to review all government procurement opportunities and

determine whether any of these contracts are suitable for award through the various Federal initiatives mentioned previously. The Federal regulations empower the PCR's with the authority to protest the failure of any agency to award a contract through the method recommended by the PCR. Notwithstanding their tremendous power and access to information, there remains an unnecessary lack of award of contracts through the SBA 8(a) and, of course, the small and disadvantaged business set-aside program.

Why is that? There is a tremendous need to accurately assess the existence and capabilities of the minority business community, and to match those capabilities with the buyers in the government. Without knowing what minorities are capable of performing or providing, it will continue to be difficult for each agency to meet their goals.

It is continuously alleged that there are not enough qualified minority contractors to perform the requirements available or to be competitive within a set-aside competition setting.

We suggest that there are too many entities attempting to build up a data base of MBE's and DBE's and none are succeeding in achieving the maximum goal: To provide each party involved in awarding contracts to minority firms with enough information to make an intelligent decision as to whether a particular requirement can be performed by a minority.

Over the past 2 years, SBA has attempted to implement the 8(a) competitive program. This program has been a dismal failure because of several reasons: First, the legislative requirement that the contract be over \$3 million is beyond the capabilities of most 8(a) firms to afford the agency sufficient bids to justify the award of the contract. Thus, requirements designated for the 8(a) competitive program are eventually withdrawn and placed in the open market unrestricted, where chances of a minority contractor participating are close to nil.

It is equally true of the small and disadvantaged business set-aside program. Too many of the small and disadvantaged business requirements are \$5 million or more.

All this decisionmaking involving millions of dollars is being done without the benefits of an adequate data base on minority contractors and their qualifications. If such information was available to the agencies, they could match the requirements with the availability of the minority contractors.

Enforcement of the current regulations are important: One of the most critical programs is the large purchase subcontracting program. Billions of dollars are awarded to large firms and under the regulations they are required to subcontract at least 10 percent to small businesses. The regulations provide that large businesses which fail to award their fair share of the contracts to small businesses can have their contract terminated and/or barred from further contracting with the government. Is this being done currently?

After award, good faith efforts: One of the basic faults of this program is that large businesses are allowed to make a good faith effort to meet their goal after the award of the contract. We believe that large businesses should be required to state, at the time of their bid, which small businesses or minority businesses they will be using to meet their goals. It is only through this method that

large businesses will be forced to comply with the goal, and small businesses can feel that they will not be "shopped around" after award. That is currently being done.

Termination, liquidated damages, and disbarment: We believe that all large businesses that have not met their small business goals should be seriously reviewed; and where warranted, legal action taken against those large businesses that have not made a good faith effort to meet their goal.

Publication of notice: It should be required of large businesses that they publish either in daily newspapers throughout the country or through the Commerce Business Daily that they are having trouble recruiting right now minority contractors and/or that they are seeking a waiver or reduction of the goal on a particular requirement.

Coordination among the agencies and the programs: There should be consolidation or at least an effort at coordination of all the resources available to minority businesses. Starting at the Federal level, there is a need to merge some of the resources of the Minority Business Development Agency, known as MBDA, to form and coordinate with the Small Business Administration.

Centers: Specifically, the SBA Small Business Centers should be merged with the MBDA's Business Development Centers to increase the data bases. This would help out tremendously with minorities in acknowledging their capabilities. Currently the SBA's PASS system should be merged with the MBDA PROFILE system and then all Federal agencies should use one central data base from which to identify potential service providers.

And, of course, the Standard Form 129: The Federal Government should consolidate the use of SF 129 so that this form is necessary to get on the bidding list of all targeted agencies and identify those minority contractors.

Thank you very much, Mr. Chairman.

Mr. SPRATT. Thank you very much, Mr. Ramirez. You not only brought us some important perspectives, but you made some good hard recommendations that I think merit our attention and study.

[The prepared statement of Mr. Ramirez follows:]

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TESTIMONY FOR THE SUBCOMMITTEE OF COMMERCE, CONSUMER AND MONETARY AFFAIRS

**PRESENTED BY: DAVID M. RAMIREZ, PRESIDENT
ILLINOIS 8(a) CONTRACTORS ASSOCIATION
CHICAGO, IL**

I would like to thank the members of the Commerce, Consumer, and Monetary Affairs Committee for the opportunity to present the Illinois 8(a) Contractors Associations' view on the SBA 8(a) and other minority programs.

I would like to state the ICA is composed all types of business. When we refer to contractors, we mean all businesses "contracting" with the federal government.

We recognize that there are many initiatives to help minority business at the city, county, state and federal level; as well, as in the private sector. The objective is to enable minority businesses to become self-sustaining in a competitive atmosphere.

At the federal level, the government has the:

- (1) Small Business Set Aside Program
- (2) Small Business Subcontracting Program
- (3) Small and Disadvantaged Business Set Aside Program
- (4) Small and Disadvantaged Business Subcontracting Program
- (5) Small and Disadvantaged Business 10% Preference Program
- (6) Labor Surplus Area Set Aside Program
- (5) SBA 8(a) Program

You have other programs at the state level: the IDOT subcontracting and set aside program; 10% Central Management Services program and the Capital Development Board's 10% goal program.

You have a 25% goal program with the City of Chicago; 25% with the County of Cook. With other programs at the Water Reclamation District; METRA and Chicago Transit Authority; Navy Pier.

If every program awarded their set goal in contracts; there would not be enough minority contractors and suppliers to meet the requirements.

Despite all these efforts, the question remains whether enough disadvantaged are benefiting from these programs and achieving their goal of joining the "mainstream" of the American business community.

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PROCUREMENT CENTER REPRESENTATIVES

The federal government currently employs individuals, known as Procurement Center Representatives (PCRs) who job it is to review all government procurement opportunities and determine whether any of those contracts are suitable for award through the various federal initiatives mentioned previously.

The federal regulations empower the PCRs will the authority to protest the failure of an agency to award a contract through the method recommended by the PCR.

Notwithstanding their tremendous power and access to information, there remains an unnecessary lack of award of contracts through the SBA 8(a) and Small and Disadvantaged Business Set Aside program.

Why? There is a tremendous need to accurately assess the existence and capabilities of the minority business community; and to match those capabilities with the buyers in the government. Without knowing what minorities are capable of performing or providing, it will continue to be difficult for each agency to meet their goals.

IT IS CONTINUOUSLY ALLEGED THAT THERE ARE NOT ENOUGH QUALIFIED MINORITY CONTRACTORS TO PERFORM THE REQUIREMENTS AVAILABLE OR TO BE COMPETITIVE WITHIN A SET ASIDE COMPETITION SETTING!

We suggest that there are too many entities attempting to build up a data base of MBE/DBEs and none are succeeding in achieving the maximum goal: to provide each party involved in awarding contracts to minority firms with enough information to make an Intelligent decision as whether a particular requirement can be performed by a minority.

Over the past two years, SBA has attempted to implement the 8(a) Competitive Program. This program has been a dismal failure because of several reasons: (1) the legislative requirement that the contract be over \$3,000,000 is beyond the capabilities of enough 8(a) firms to afford the agency sufficient bids to justify the award of the contract. Thus requirements designated for the 8(a) competitive program are eventually withdrawn and placed in the open market.

This is equally true of the SBD Set Aside Program. Too many of the SDB set aside requirements are \$5,000,000 or more.

All this decision making involving millions of dollars is being done without the benefits of an adequate data base on minority contractors. If such information was available to the agencies, they could match the requirements with the availability of the minority contractors.

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ENFORCEMENT OF CURRENT REGULATIONS

Large Purchase Subcontracting Program. One of the most critical programs is the Large Purchase Subcontracting Program. Billions of dollars are awarded to "large" firms and under the regulations they are required to subcontract at least 10% to small businesses.

The regulations provide that large businesses which fail to award their "fair share" of the contract to small business can have their contract terminated and/or bar from further contracting with the government.

After Award "Good Faith" Efforts. One of the basic faults of this program is that large businesses are allowed to make a good faith effort to meet their goal after the award of the contract. We believe that large businesses should be required to state, at bid time, which small businesses they will be using to meet their goal. It is only through this methods that large businesses will be forced to comply with the goal and small businesses can feel that they will not be "shopped around" after award.

Termination, Liquidated Damages and Disbarment. We believe that all large businesses that have not met their SB goals should seriously reviewed and where warranted legal action taken against those large business that have not made a good faith effort to meet their goal.

Publication of Notice. It should be required of large business that they publish either in daily newspapers through out the country or thru the Commerce Business Daily, they are having trouble recruiting minority contractors and/or that they are seeking a waiver or reduction of the goal on a particular requirement.

COORDINATION AMONG THE AGENCIES AND PROGRAMS

There should be consolidation, or at least an effort at coordination of all the resources available to minority businesses. Starting at the federal level, there is a need to merge some of the resources of the Minority Business Development Agency with that of the Small Business Administration.

Centers. Specifically, the SBA's Small Business Centers should be merged with the MBDA's Business Development Centers.

Data Bases. SBA's PASS System should be merged with MBDA's PROFILE system; and then all federal agencies should use **ONE CENTRAL DATA BASE** from which to identify potential service providers.

Standard Form 129. The federal government should consolidate the use of the SF129 so that one 129 is necessary to get on the bidding listing of every targeted agency.

Mr. SPRATT. The next witness is Mr. Joe Williams, who is the President of Target Group. Mr. Williams.

STATEMENT OF JOSEPH WILLIAMS, PRESIDENT, TARGET GROUP, INC.

Mr. WILLIAMS. Chairman Spratt, thank you and good morning. Welcome to Chicago. We are glad to have your subcommittee here with us. Also, I would like to say on behalf of Chicago, welcome to our native son, Congressman Rush. We are always happy to see him when he comes back home. We do not see him here enough; we would like to see him here every day, not 2 or 3 days a week.

I have prepared testimony for you and I understand that testimony will be made a part of the record. In the spirit of time, I would like to ask you to intact take the testimony.

I would like to focus my comments this morning on some highlights I would like to cover so we would have a little bit more time for questions and answers afterwards.

We were asked to talk about surety bonding. As many of you know, our firm has been involved in the last year with an organization called Minority Business Development Administration, and we have been asked as a firm to provide assistance to minority construction firms, who are involved in requiring technical assistance of one type or the other. As a result of that involvement, we have been focusing on bonding for minority firms and that is what I would like to talk about this morning.

We were asked to comment on some of the obstacles that are facing small minority and women contractors. Just to give you some background, our experience over the past 10 years indicates that substantial numbers of MBE firms are being denied opportunities to be prime and second-tier subcontractors solely on the basis of their inability to acquire a bond. We have been involved in some 70 projects over this time, and an average of at least one contractor per project has been denied access because they could not get a bond. Statistically, this means that approximately 70 contractors have been denied contracts during this time period. If their inability to get a bond was truly the only criteria that eliminated these firms, then clearly opportunities for growth and development of these firms has been hampered. Consequently, this loss translates into lost jobs and economic impact for our communities.

One example at the Federal level exists on a current project at the Postal Service here in downtown Chicago. A Chicago-based contractor had a low bid on the contract with the general contractor; but because he had a B-rated bond and not an A-rated bond, he was denied. The A-rated bond requirement was a requirement imposed by the Postal Service. Because he did not have an A-rated bond but did have a B-rated bond, he was denied a contract. Now this contract was worth \$5 million; it was a substantial contract that that firm was denied access to just because he could not produce a bond.

Another example—

Mr. SPRATT. Could I just interrupt you for clarification? When you say B-rated as opposed to A-rated, you are referring to the Best insurance rating?

Mr. WILLIAMS. Yes.

Another example, in the city of Chicago we have a target market program, that is a program sponsored by the city of Chicago. Clearly this program is designed to shelter certain contracts for minority and women-owned firms, and the purpose here is to try to ensure that there is some competition for these firms within certain sectors of the marketplace. The sheltered market program is a great program, except that they have two caveats in the program. And the two caveats that are in the program is that the firms must have both audited financial statements and they must be able, again, to achieve a bond rating where they can actually get bonds. It appears that because of these two categories of requirements a program that is well intentioned and one that started out with a lot of enthusiasm, is actually going to have a dampening effect on the number of firms that can actually participate in the program. This comes strictly because on most of these contracts it will be difficult for minority firms to continually have either the bonding mechanisms that they have in place to, in fact, achieve the type of creditworthiness that will be necessary for them to achieve the bonds, or the ability on a continual basis to supply the people with audited financial statements.

Let me talk to you about some of the things that are going on in the private sector because I think that the private sector is an area that we advocate that the Federal Government do more to stimulate activity. We believe that the construction industry in the private sector, which is made up of primarily the majority contracting community, is an area where there is an opportunity to create new opportunities for minority firms to work with these majority contractors.

As you know, the construction industry is close-knit; it is family dominated. Many firms are in their second or third generation operating structures. This is what we call the old buddy network. Minorities and women, unless they are part of construction families, have been and will continue to be excluded whenever possible. The industry has consistently supported this network by either waiving bonds or doing joint ventures where bond exposure could be shared. Recently, we have begun to see some major contractors begin to make these bonding resources available to minority and women contractors.

Our first recommendation to this committee is that the industry should receive incentives to continue to stimulate their willingness to assist minority and women-owned firms. Some of the examples that we have talked to some of the majority contracting community about, that they have expressed some interest in exploring with us, are: One, speedy payments to contractors who assist minority and women-owned firms; two, enhanced minority and women business credit on contracts when bond assistance is supplied by the contractor; three, bonus points leading to the award of a contract; four, allow for negotiated retention arrangements based upon contractor's support of programs established for MBE's and WBE's; and last, award of technical assistance grants to associations and majority prime contractors who assist minority and women-owned firms.

Besides making the construction industry more proactive as it relates to working with MBE and WBE firms, the other equally im-

portant initiative has to be getting the surety bond industry to be more aggressive in its assistance programs to MBE and WBE firms, where bonding requirements are a part of the requirement for contracts. Recently, Amwest Surety Insurance Co. announced a major initiative to assist minority firms with bonding requirements and the acquisition of performance bonds. There are many more firms in the industry who could do the same thing. I believe this committee should convene a meeting of the surety bond industry leadership and challenge them to come up with new approaches to assisting minorities and women. This step is mandatory if any significant progress is going to really be expected in this area.

Finally, increasing opportunities for small minority and women-owned firms: Every Federal agency, department, and commission should establish goals for the utilization of small minority and women-owned firms. These goals should be mandated, like the USDOT programs, not best efforts like many of the other agencies that exist. The Federal Executive Service should receive extensive training in how to identify, quantify, and establish 5-year affirmative action plans to increase the utilization of these firms over a 5-year period. The budgets of both the SBA and MBDA should be significantly increased to ensure that technical assistance is available for the various needs of minority and women-owned firms.

Thank you, Mr. Chairman.

Mr. SPRATT. Thank you very much, Mr. Williams.

[The prepared statement of Mr. Williams follows:]



Public Testimony

by

Joseph A. Williams, President

Target Group Inc.

Chicago, Illinois July 12, 1993

Subject: Issues Facing Minority and Women Owned Contractors

For: Subcommittee on Commerce, Consumer, and Monetary Affairs

About the Firm

Target Group Inc. provides a results-oriented approach to affirmative action planning and implementation in the areas of minority- and women-owned business development, and human resources and organizational development. The firm creates innovative programs to increase the participation of minorities and women in the marketplace and the labor force through contracting and employment opportunities. In addition, Target Group serves as a catalyst to initiate networking opportunities for minorities and women by facilitating linkages with real estate developers, corporations, communities and local organizations.

Target Group was founded by Joseph A. Williams and Donald I. Kane in 1983 and serves public- and private-sector clients with an emphasis on the real estate, construction and transportation industries. The firm's private-sector clients have included JMB Realty Corp., Stein & Company, DePaul University, Lexington Homes, Greyhound Lines Inc., Saks Fifth Avenue and The Levy Organization. In the public sector, Target Group has fulfilled assignments for the Chicago Park District, County of Cook, Metra, Metropolitan Pier and Exposition Authority, and the Illinois State Toll Highway Authority focusing Primarily on ways to embellish their existing M/WBE programs.

Target Group's efforts have resulted in substantially increased minority and female participation in projects such as AT&T Corporate Center, the Ralph H. Metcalfe Federal Building, Chicago Place, City Place and the McCormick Place Expansion project.

In recognition of its achievements, Target Group has been named Consultant of the Year by the Hispanic American Construction Industry Association. The firm has received the Outstanding Business Leadership Award from the Coalition for United Community Action and the Affirmative Action Award from Black Contractors United. Target Group has also been honored with the Appreciation Award from the Minority Business Sub-Council, the Chicago Building Trades Council and the Hispanic Rotary Club.

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Surety Bonding

Obstacles Currently Facing Small, Minority and Women Contractors

Our experience over the past ten years indicate substantial number of M/WBE firms are being denied opportunities to be prime and 2nd tier subcontractors solely on the basis of their inability to acquire bonds. We have been involved in some 70 projects during this time and on an average at least one contractor per project has been denied access. Statistically this means that approximately 70 contractors have been denied contracts during this time period. If their inability to get a bond was truly the only criteria that eliminated these firms then clearly opportunities for growth and development of these firms were lost. Consequently, this loss truly translates into lost jobs and economic impact for our communities.

An example at the Federal level exists on a current project at the U.S. Postal Service New Downtown Chicago General Mail Facility. A contractor had a low bid price and supplied the General Contractor with a "B" rated bond, but was denied the contract because the General Contractor and the Postal Service required an "A" rated surety carrier. This contract was for an excess of \$5,000,000. Quite a loss to that particular contractor.

Another example that exists is when municipalities like the City of Chicago establish "Target Market" programs to assist M/WBE firms. These programs, often crafted with good intentions, seem to be structured with barriers which actually prevent the programs from functioning in the manner they were intended. The obstacles presented as a result of these programs often inhibit the targeted minority or women-owned firm from securing the contract for which the program was created to guarantee. As an example, the City of Chicago now has a Target Market sheltered program for minority and women-owned contractors which allows for certain City projects to have 25% of the work set-aside for bids open only to M/WBEs. At face value this program offers City Certified M/WBEs a leg up to outside completion in selected trade areas and has the ability to increase the overall utilization of qualified M/WBE in construction marketplace. However, two of the caveats of this program are that the targeted M/WBEs bidding the project must have audited financial statements and be bondable. These two appendages to the Target Market Program have virtually denied the entry by small and emerging M/WBEs who neither have the available resources to ascertain audited financial statements nor have the history in the business to be bondable by acceptable treasury listed surety companies.

Solutions

Private Sector Initiatives:

The construction industry is closely knit, family dominated industry. Many firms have 2nd and 3rd generation operating structures that have evolved into an interconnected network of firms and individuals. This is the classic arena for the "old buddy" network. Minorities and women, unless they are part of construction families have been and will continue to be excluded whenever possible. The industry has consistently supported its "old buddy network" by either waiving bonds or doing Joint Ventures where bond exposure could be shared. Recently, we have begun to see some major players begin to make these resources available to minority and

women contractors. Our first recommendation to this committee is that the industry should receive incentives to stimulate their willingness to assist M/WBE firms. Some examples of incentives are:

1. Speedy payments to contractors who assist M/WBE firms.
2. Enhanced M/WBE credit on contracts when bond assistance is supplied by the contractor.
3. Bonus points leading to the award of a contract.
4. Allow for negotiated retention arrangements based upon contractors support of M/WBE firms.
5. Award technical assistance grants to majority prime contractors who assist M/WBE firms (e.g., Mentor/Protege Programs).

Besides making the construction industry more proactive as relates to working with M/WBE firms the other equally important initiative has to be getting the surety bond industry to be more aggressive in its assistance programs to M/WBE firms with bonding requirements. Recently, Amwest Surety Insurance Company announced a major initiative to assist minority firms with bonding requirements and the acquisition of performance bonds. How many more firms out there can do the same? I believe this Committee could convene a meeting of the surety bond industry leadership and challenge them to come up with new approaches to assisting minorities and women. This step is mandatory if any significant progress is expected in this area.

Increasing Opportunities for Small, Minority and Women-owned Firms

Every federal agency, department, commission, etc., should establish goals for the utilization of small, minority and women-owned firms. These goals should be mandated, like USDOT, not voluntary like the GSA. The Federal executive service should receive extensive training in how to identify, quantify and establish five year affirmative action plans to increase the utilization of these firms over a five (5) year period. The budgets of both the SBA and MBDA should be significantly increased to insure that technical assistance is available for the various needs of M/WBE firms.

Mr. SPRATT. The final witness on this panel is Mr. Stephen Leite with Robert Keith and Associates, who is the chairman of the Surety Bond Development Committee. Mr. Leite.

STATEMENT OF STEPHEN J. LEITE, ROBERT KEITH AND ASSOCIATES, INC., AND CHAIRMAN, SURETY DEVELOPMENT COMMITTEE

Mr. LEITE. Mr. Chairman, the Honorable Congressman Rush, I am pleased to be here this morning to represent the committee and pleased to have this opportunity to be present at a meeting where we can voice our opinions and practical experience in the industry.

I would like to first introduce some facts about our committee, and it should be noted for the record that the committee is now called the Surety Access Committee. It is being chartered, and the name change is to more readily identify us as a spearhead initiative in this area. The committee is composed of surety and insurance specialists and a surety company in the membership. The purpose of the committee is to educate contractors to the requirements of surety companies, to consult and advise contractors on how to meet these requirements, and to make presentations to surety companies to arrange for surety credit to contractors. In other words, to act as an advocacy committee.

The mission statement of the committee indicates that the Surety Access Committee will provide technical support to MBE-owned firms for access and recommendations to a broad representation of surety markets, with the ultimate goal to foster sound relationships between surety companies and the minority construction community. Assistance will include seminars, workshops, and individual contractor direction in completing surety applications and in assembling the required underwriting data. The committee will further assist with followup to successful conclusion toward obtaining bonding or will critique for necessary improvement to accomplish positive results.

The Surety Access Committee will also be focusing on WBE firms in a separate initiative outside of the MEGA Center program.

The questions that I was asked to discuss today involve comments on certain problems and improvements that could be made to allow better access to surety credit. I was also asked to discuss the committee's approach and practice, and I would like to just tell you that this is probably the first organization of its kind. The insurance industry is, by nature, a very competitive industry and what we have here is independent insurance and bond specialists brought together on this committee to combine their resources for the improvement and betterment of the firms that we assist. This is somewhat unheard of, and we think that it is an initiative here that can be looked at as an example and pattern for other locations and agencies around the country. We have found success thus far in providing surety credit; we have analyzed 15 construction companies of various sizes; and, we have been able to provide surety credit or surety commitments to 11 or 12 of those companies with the remainder still being in the process of getting us information on their companies and experience. So we have found a very high degree of success in providing bond credit for companies that come in, that we have no prequalification for, but just come in and

present their experience, financial statements, et cetera, to our committee. By using the broad resources of the committee, we have been able to provide bond access.

My comments, written for the record, discuss some ways of improvement. I do not have any comments for you today that deal with the problems with Federal programs or the SBA. Since my company's formation in 1984, we have dealt quite extensively with the surety bond guarantee program with the SBA; and we think that the only major concern is that you make an effort to continue the funding for that agency. It provides a basis for many, many small contractors to enter the bonding arena; and we believe that if contractors availed themselves of surety specialists or committees, such as the Surety Access Committee, they would be able to eventually obtain the surety credit that they are seeking.

One of the main points that I want to leave you with is that there are resources available for contractors of all sizes to get bonding credit. Small contractors who come to you or other agencies to complain about the need for surety bonding should be directed to our committee. We are working with surety companies that are able to bond contractors in every State of the country. So, if we are able to work with the contractors and they are referred to the resources available, they can put together bonding programs.

The Surety Bond Opportunity Act, I believe, speaks to raising the Federal minimum limits for surety bonds from \$25,000 per job to \$100,000 per job. Any small business that has the ability to perform the work can obtain surety bonds under that \$100,000 limit, in my experience. I will stand by that comment today. The contractors normally do not know where to find the resources available. The insurance industry is full of many competent insurance agents, but surety professionals are few and far between. So, if contractors were better directed to find these resources, they would be able to put together the bonding necessary.

I think that one of the things that should be made note of and translated by the associations present today to their membership is first, that the Surety Access Committee is created here as a unique organization. In fact, there are members of it that reach other organizations of surety specialists who are more than happy to work with contractors at every level to set up bonding, so the resources are available. Second, I would ask that you translate to your membership that there are certain standards within an industry that need to be met. A contractor who does not have the experience and organization to complete a \$2 million job will not be bonded for a \$2 million job. If his ability and experience is to successfully complete work at a lower level, then the bonding can be made available to accomplish that result.

The contractor needs to be made aware that there are requirements on his end that need to be met. We also are able to advise and consult through our committee how to improve their business management, financing, and other business management practices to attain these goals. But the contractors need to understand that there is some effort on their end as well.

Thank you very much.

[The prepared statement of Mr. Leite follows:]

Robert Keith and Associates, Inc.

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Commerce, Consumer and Monetary Affairs Subcommittee
of The Congress of the United States
House of Representatives
Washington, D.C.

Written Testimony regarding issues facing minority and women
owned businesses and surety bonding.

Discussion of issues specified in correspondence dated June 23,
1993 (attached)

Issue 1.a)

The Surety Access Committee (there has been a name change since the inception, originally the name was Surety Bond Development Committee, the current name and organization is being chartered) is organized with surety/insurance specialists and a surety company in its membership. The purpose of the committee is to educate contractors to the requirements of surety companies; to consult and advise contractors on how to meet these requirements; and to make presentations to surety companies to arrange for surety credit for the contractor. The committee also acts as an advocate to the surety industry to increase bond support to minority construction companies. These activities are set forth in the mission statement which is attached hereto.

The committee has placed bonds for several contractors who have applied to the MEGA Center for assistance. It has advised others as to the necessary steps to meet bonding qualifications and the committee has increased surety access in the MBE market by obtaining the commitment of a standard "A" rated surety company for bond support. The information attached describes the level of commitment on behalf of the surety, Amwest Surety Insurance Co.

In conjunction with the annual Business Fair held at the University of Illinois at Chicago, the committee conducted an educational workshop for contractors on bonding.

Bi-monthly committee meetings are held at which members discuss the progress of contractors who are in the process of obtaining bonding; review new accounts seeking assistance; plan marketing strategies to promote the services available from the MEGA Center; and plan new upcoming events.

Discussion of issues specified in correspondence dated June 23, 1993 (page 2)

In addition, discussions are held to review related services of the MEGA Center as needed by the client. These include accounting, business management, technical support, estimating, etc. and refer the contractor as appropriate.

To date the educational seminar conducted reached (16) sixteen contractors. The surety committee has reviewed (14) fourteen contractors for bonding. Four (4) have not yet provided complete information and (10) ten have been assisted with the establishment of bond capacity.

The bond services are conducted on a priority basis. That is, each account is reviewed immediately upon receipt and information is processed. Arrangements are made to meet the contractor and any necessary steps which are needed are outlined with the contractor to aid in obtaining bonds. These steps may include updating financial reports, referring a CPA to produce a financial report, or some other needed business practice. The surety company member of the committee has also committee to immediate priority review of referred contractors.

1.b) Obstacles and problems to obtaining bonds come from several areas. In the attached titled article written for the American Subcontractors Association Periodical the main problem areas are briefly discussed. These areas include lack of a bonding specialist to work with the contractor; lack of preparation by the contractor in putting together information to apply for the bond; poor or improper financial reports; lack of sufficient funding to operate jobs due to low working capital, losses, high debt, or other financial weakness; or lack of management ability or experience to successfully complete the desired bonded jobs.

Once we, as surety specialists are put together with the contractor, and the contractor is willing to make the necessary decisions to establish himself as a bondable entity we can obtain bonding for the contractor.

2.a) The "Equal Surety Bond Opportunity Act"

Two points of comment:

a) There should be open disclosure of reasons why contractors are denied bonding. Where this is not done it is usually due to the lack of a surety specialist working with the contractor. Companies have always offered reasons to us as to why they are

turning down an account. It is the agents responsibility to correctly communicate this to the contractor and then advise the necessary steps to correct the problems.

Discussion of issues specified in correspondence dated June 23, 1993 (page 3)

2.b) The proposed raising of minimum levels for jobs requiring bonding is not the solution to the assertion that some small and minority contractors have problems getting bonds. Raising the limit on Federal jobs requiring bonds from \$25,000 to \$100,000 will negatively impact more small businesses than the one contractor who alleges that he cannot get access to bonds. If more jobs go unbonded then the subcontractors and suppliers of materials and equipment for these jobs face financial distress if the contractor defaults. Putting more businesses at risk and increasing the exposure of tax dollars to default is not the solution. We can bond on jobs under \$100,000 for any contractor who can show he has the ability to complete the work. Any contractor who cannot get bonds on this category of work should be immediately referred to the Surety Access Committee.

3. After over ten years of experience my agency has with the Small Business Administration bond guarantee program, the only area of concern that exists is to ensure that congress continues funding the agency and its programs.

The processing of our guarantee requests has always been handled in the best possible fashion in our dealings with the Chicago Regional Office.

The assertion that the SBA fee creates a non-competitive situation for contractors is untrue. The standard bond company charges a rate of 2.5% on jobs under \$100,000 and the SBA cost is usually 2.6% in most parts of the country. Any small contractor bidding with SBA rates on small jobs is paying comparable rates to it's competitors. If a huge construction firm is desperate enough to bid on small bonded jobs then it will not be the bond rate that makes the small contractor uncompetitive. (Huge companies doing a high volume of bonded jobs with exceptional records can qualify for discount rates).

4.a) Outside of the Bonding area the greatest problems facing contractors are the lack of availability of financing and the length of time before a contractor is paid.

Every public bonded job should provide access to mobilization funds at the beginning of a job so the contractor can get his necessary fees and readiness expenses covered. In addition,

there should be penalties of accrued interest to the public agency that does not process and finalize payment for approved work in a reasonably timely fashion. Closing out payments in 12 to 24 months is crippling to small businesses.

Discussion of issues specified in correspondence dated June 23, 1993 (page 4)

Also, any General Contractor on public bonded jobs should have a penalty for lack of payment to subs on work which the sub has completed and had approved and for which the General Contractor has been paid.

This should apply to all public bonded jobs at every level: State, Federal, and local.

Financing for local businesses including contractors on public bonded jobs, should be more readily available. Lending institutions should be encouraged, through programs such as the LINK Deposit program of the Illinois State Treasurers office, to lend money to the small business community.

2.b) This item is deferred to Mr. Joe Williams of the Target Group for answer.

JOHN EDWARDS JR MICHIGAN
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ONE HUNDRED THIRD CONGRESS

Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

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Mr. Steven Leite
President, Surety Development Committee
Robert Keith & Associates
1750 N. Washington Street
Napierville, IL 60555

Dear Mr. Leite:

I am writing to invite you to participate in a hearing to be held by the Commerce, Consumer, and Monetary Affairs Subcommittee on July 12, 1993, in Chicago, beginning at 8:00 a.m., in Room 2525 (the Ceremonial Courtroom), 219 S. Dearborn Avenue, concerning issues facing minority and women owned small businesses, with Chicago as a case study. I would like to request your appearance on a panel (which will, among other things, focus on surety bonding issues), your submission of a written statement for the hearing record, and a very brief oral summary of your testimony.

The hearing will examine the problems confronting minority and women owned small businesses and the adequacy of Federal agency activity directed to such businesses, including the effectiveness of relevant SBA and other agency programs and the adequacy of efforts by Federal procurement agencies to implement goals to set aside some contracts for such businesses. The Subcommittee will also receive testimony on innovative approaches for helping small businesses, including new ways to obtain surety bonding. I would like the hearing to serve as a constructive dialogue with minority and women owned businesses, the SBA, and other Federal agencies, both to shed light on the problems and to explore solutions to those problems.

Due to severe time constraints, I would like to request that you limit your oral testimony to no more than 5 minutes, summarizing the major points of your written statement. I should add that your written statement will, of course, be entered into the record and can be as long as you believe necessary to present relevant information. Your cooperation in adhering to this plan and time limitation would be very much appreciated. Your testimony should respond to the following questions and requests for information:

1. Please describe the organization, purpose, and activity of both the Surety Bond Development Committee and MEGA Center Surety Support Initiative and how both may overcome the obstacles in obtaining surety bonding. In your response, please (a) describe the assistance, consultant, review, educational, and advocacy functions of both, and specify

- 2 -

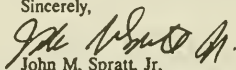
obstacles and problems of obtaining surety bonds and whether they could serve models elsewhere; and (c) quantify the amount of surety bonding that these programs have helped minority and women owned small business contractors obtain.

2. If you are familiar with the "Equal Surety Bond Opportunity Act", sponsored by D.C. Delegate Eleanor Norton Holmes and Senator Paul Simon (which would require reasons for denials of bonding on U.S. Government contracts and Treasury Department enforcement of proposed anti-discrimination provisions), please set forth your views on this legislation.
3. Please discuss (a) any concerns about or problems with the SBA's Surety Bond Guarantee Program, including the fees charged, the availability of SBA funds, and any operational or administrative problems (such as delays), to the extent you have knowledge thereof, and (b) any suggestions on how the program might be improved.
4. Apart from the surety bonding area, please set forth any suggestions on (a) ways to overcome obstacles facing small business contractors and (b) how the Federal procurement agencies could increase the number of contracting opportunities for such businesses, including any suggestions for improving the SBA's 8(a) or technical assistance programs or MBDA's funded programs.

Please telephone Subcommittee Senior Counsel, Stephen McSpadden (at the above phone number), or Congressman Rush's Special Assistant, Bill Burke, at 312-224-6500 if there are any questions about the above. If you believe that providing certain information requested above would be burdensome, then please feel free to provide a general response rather than a detailed reply; or, if information is requested on a topic with which you are not familiar, then please feel free to disregard that topic in your testimony. The information requested is somewhat detailed because it is designed to serve as the basis for findings and recommendations in an eventual committee report.

We will need 60 copies of your testimony (to be given to Mr. McSpadden or Mr. Burke no later than 7:45 a.m. the morning of the hearing, before it begins) and would appreciate receiving 10 copies for the Subcommittee members no later than Thursday, July 8th. I would like to thank you for your participation and your cooperation in this important endeavor.

Sincerely,



John M. Spratt, Jr.
Chairman

cc: Hon. Bobby L. Rush, M.C.
Mr. Joe Williams
President, the Target Group

SURETY DEVELOPMENT COMMITTEE MISSION STATEMENT

The MEGA Center Surety Development Committee will provide technical support to MBE owned firms for access and recommendations to a broad representation of surety markets with the ultimate goal to foster sound relationships between Surety Companies and the Minority Construction Community. Assistance will include (1) seminars, (2) workshops, and (3) individual contractor direction in completing surety application and in assembling the required underwriting data. The committee will further assist with follow-up to successful conclusion toward obtaining bonding or will critique for necessary improvement to accomplish positive results.

Updated Quantify Report

SURETY DEVELOPMENT COMMITTEE
ASSESSMENT OF PERFORMANCE

PERFORMANCE HIGHLIGHTS

Through July 7, 1993 the Surety Development Committee has engaged and reviewed fifteen (15) clients seeking bonding assistance. Of the fifteen (15) clients seeking bonding assistance twelve (12) clients requested bonding capacity assessments and three (3) clients requested performance bonds for construction projects requiring performance bonds. Of the three (3) clients seeking performance bonds/ underwriting commitments from surety companies all three (3) clients have been successfully assisted with their requests.

The Surety Development Committee successfully placed a two-phase performance bond in the amount of \$440,000 for Suarez Electric Co., of which a \$220,000 was issued on March 2, 1993. Additionally, the committee has issued underwriting commitments to two (2) contractors for performance bonds pending contractual negotiations. A commitment for a performance bond in the amount of \$917,000 was issued for Eden Corporation to be written pending project financing. A commitment to issue bond up to \$100,000 was issued for AAA American Systems. Moreover, a surety underwriter issued a commitment to furnish performance bonds to Lee's Landscaping for all public projects the company will bid in 1993 up to \$38,000.

CLIENT	SERVICE REQUESTED
U.L. Piping	Capacity Assessment
Dr/Balti	Capacity Assessment
National Metals	Capacity Assessment
Suarez Electric	Performance Bond
Lee's Landscaping	Performance Bond
SEA Systems	Capacity Assessment
Eden's Corporation	Performance Bond
Golden Electric	Capacity Assessment
Qu-Bar	Capacity Assessment
AAA American Systems	Capacity Assessment
Prime Architectural Metal	Capacity Assessment
R & M Contractors	Capacity Assessment
Brown & Momen	Capacity Assessment

Page 2
Surety Development Committee
Assessment of Performance and Procedures

CLIENT	SERVICE REQUESTED
Montemayor	Capacity Assessment
Hawkins Corporation	Capacity Assessment

MAJOR REASONS WHY CONTRACTORS HAVE PROBLEMS GETTING BONDED

In discussions with contractors on the subject of bonding, the talk always turns to the difficulties of getting established and of getting larger capacity or better rates. Many contractors can relate to frustrating efforts to qualify the first time with a bond company.

The surety industry has created tighter bonding standards because of losses in recent years but it is still possible for a capable contractor to obtain bonds. However, the process will be easy or difficult depending on preparation and on the contractor's avoidance of some common problems. Following are some of the most common reasons why a contractor is turned down by a surety.

Lack Of Profitability

If a contractor is profitable many other faults can be overcome. Sureties expect a contractor to be able to put 2% net or more to retained earnings to help increase the work program. Two losing years out of three, or low to break even profits signal problems and will result in a decline by the surety.

Lack Of Quality Financial Reporting

If your CPA is not preparing a financial statement format acceptable to the surety you will have difficulty getting bonds. Most sureties require Review type statements and more are requiring audited year end statements. The preferred method of accounting is percentage of completion. Statements should include a "jobs in progress" schedule and "completed job" schedule. Full explanations of events and procedures should always be included and all information provided in a timely manner. The more thorough the presentation of information to the surety the better the chances are that the contractor will get what he wants.

High Bank Debt

Reliance on the bank line as a continuous source of working capital, poor cash flow, hung receivables, and slow collections are red flags to the bond company. Debt must be less than 3 to 4 times company net worth or equity to qualify for a standard surety.

Slim Working Capital To Support Jobs in Progress

Depending on the trade or nature of the job, sureties require 5% to 20% of work volume in working capital. High underbillings, are problems for bond companies and limit bond capacity. Slow pay records and liens are unacceptable, and overstated profit or uncollectable receivables will eventually be discounted.

MAJOR REASONS WHY CONTRACTORS HAVE PROBLEMS GETTING BONDED**Lack Of Sound Long Term Management Practice**

Business decisions which make sureties very cautious include: expansion into property development; geographic diversification, such as going to the East or West coast for a job; start up of an operation in an unfamiliar trade or new industry; a sudden increase in sale volume or a single new job more than two times the largest job completed to date, failure to adequately plan for a continued smooth operation of the company in the event an owner or key manager dies or leaves; unwillingness of owners to personally guarantee their companies performance to the surety.

Lack Of A Bond Agent

The bond industry is segmented into different types of companies. Some sureties will not write certain trades, or deal with new contractors, or with those who bond once a year. Yet a capable contractor can qualify at some level. A professional agent can find the bond market for each case and make a good presentation to sell the surety on the contractor. The contractor can be prequalified in critical areas, easing the frustration of setting up a bond line. The bond professional will also recognize when the contractors changing profile qualifies him for better rates and larger capacity with a new surety.

Lack Of Preparation

Lastly, a contractor should seek bonding qualification before the need arises, providing time to gather information and resolving situations that will be questioned by the surety. Preparing appropriate information in advance of bond needs and solving or avoiding these most common problems will enable a contractor to obtain the best bonding credit available.

Steve Leite
Robert Keith and Associates, Inc.
February 17, 1992



THE FLAGSHIP OF MINORITY BUSINESS

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MEGA Center Consortium

David J. Burgos & Associates, Inc.
Chicago Regional Purchasing Council, Inc.
Chicago International Development Corporation
Ralph G. Moore & Associates
Target Group
Women In Franchising, Inc.

NEWS RELEASE

For Immediate Release

Amwest Announces Bonding Commitment For Illinois & Midwest Minority Contractors

Leading Surety Company To Underwrite Up To \$50 Million
In Bonds For Commerce's MEGA Center

Chicago, Illinois—Thursday, June 10, 1993—Amwest Surety Insurance Company has joined in an innovative public/private partnership with the Minority Enterprise Growth Assistance (MEGA) Center of Chicago, to help minority contractors obtain bonding for construction projects in Illinois and throughout the Midwest. The partnership is a major advance for minority-owned businesses, as qualifying for bonding is often a primary obstacle to minority business growth.

Amwest, the 13th largest surety company in the U.S., has agreed to a commitment of an estimated \$25-50 million in surety bonds to qualified minority business clients from the Midwestern states. As the nation's largest specialty surety company for small contractors, Amwest will offer streamlined application procedures, special underwriting criteria and local approval authority from its Chicago Branch office. Whenever possible, collateral requirements will be eliminated by use of the Small Business Administration (SBA) or Illinois Job Development Authority (JDA) bond guarantee programs.

Amwest will handle the bonding requirements of MEGA Center's clients throughout the Midwest, primarily through its Chicago branch office, with the assistance of other Amwest branch offices in Minneapolis, Detroit, Indianapolis, St. Louis and Kansas City.

Funded By: United States Department of Commerce
Minority Business Development Agency

Operated By: David J. Burgos & Associates, Inc.

Amwest Announces Bonding Commitment
Page 2

Funded by the U.S. Department of Commerce's Minority Business Development Agency, and operated by the consulting firm of David J. Burgos & Associates, Inc, the MEGA Center is a full-service business development center dedicated to promoting minority entrepreneurship. Its mission is to increase the competitiveness of more than 124,000 U.S. minority-owned companies in a ten Midwestern state region; Illinois, Michigan, Indiana, Wisconsin, Missouri, Ohio, Nebraska, Kansas, Iowa and Minnesota. Together, these businesses have gross sales of more than \$6 billion, with profound economic impact on the Midwestern U.S.

Providing construction industry expertise for the MEGA Center, is the Target Group, Inc., a MEGA Center partner. The Target Group, Inc. created a Surety Development Committee to assist the minority contracting community in obtaining bonding on various projects, in the form of educational courses, help in bond placement and critiques of bond applications. For minority contractors, the benefit is increased approval on bonding applications, allowing them greater success in winning new construction business.

Committee member Richard M. Keehan, Jr., a contract bond specialist for the Rockwood Company said, "The Surety Development Committee is providing specialized expertise that allows minority contractors to gain access to surety bond markets. With the help of the committee members, the MEGA Center's construction division and minority clients, we'll increase the success rate of minority contractors to get the bonds they need for successful bids."

George Herrera, MEGA Center President, praised Amwest for taking a leading role in helping minority owned contracting businesses qualify for surety bonding. "By making themselves accountable for their underwriting decisions, Amwest, has taken a bold step to help our minority-owned clients," said Herrera. "MEGA clients can now get the bonding and the answers they need faster and easier than ever before. That will do much to erase minority skepticism about how surety companies care about them. And appearances can make all the difference," he said.

"Our cooperative venture with MEGA's Target Group is part of a larger program we have been working on to give small contractors nationwide a better chance to participate and grow," said Amwest President John Savage. "And the MEGA Center is one of the most innovative approaches in the country to help minority business entrepreneurs."

Tom Kay, Amwest Chicago Branch Manager, commented on the potential of the joint venture. He said, "This has given us a unique opportunity to reaffirm our commitment to

-Continued-

Amwest Announces Bonding Commitment
Page 3

the small and specialty contractors in the Midwest. As cities and states seek new ways to build both jobs and economic growth, I think we'll see joint efforts like these as the wave of the future."

MBDA Acting Director Loretta Young added, "Amwest's commitment to provide surety bonding for U.S. minority contractors in the Midwest is a major breakthrough in helping remove barriers that minority contractors traditionally face when bidding on construction projects. We are confident that the MEGA Center's Surety Development Committee will provide the leadership necessary to ensure that minority contractors have better access to surety bonding needed to compete for private and public sector projects."

Recently, Amwest made a similar bonding commitment of up to \$50 million with the Regional Alliance for Small Contractors, a public/private organization helping small, minority and woman-owned contracting firms in New York State and New Jersey. The program has received an enthusiastic support by minority contractors, businesses and government official in those states. As a result, Amwest has received inquires from as far away as Colorado and California.

Amwest Surety Insurance Company, a Woodland Hills, California-based insurance company specializes in underwriting surety bonds, including contract, performance, court, license and permit and sales tax bonds. Amwest, has a nationwide network of 30 branch offices which serve the bonding needs of principals and agents in all 50 states, Puerto Rico and Guam.

The Company is Treasury Listed and carries the prestigious "A" rating (Excellent) from A.M. Best.

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NATIONAL SURETY FIRM JOINS LOCAL EFFORTS TO BUILD MINORITY BUSINESSES

(CHICAGO, Ill.) -- June 8, 1993 -- The 13th largest surety firm in the country has endorsed the work of local businesses to encourage the growth of minority contractors. Amwest Surety Insurance Company of Woodland Hills, Calif., has committed to providing up to \$50 million in surety bonds to clients of the Surety Development Committee of Chicago's Minority Enterprise Growth Assistance (MEGA) Center.

"This is a key first step, for minority contractors and the city of Chicago," says committee member Michael Platt. Platt points out that the city requires significant minority participation on its construction projects, yet few minority firms can get the surety bonding necessary to qualify for a contract. "Amwest's support has moved us ahead light years in our efforts to provide the resources minority firms need to grow," says Platt, a bonding specialist with Risk Management Resources.

The MEGA Center is a unique, federally funded program that opened in October 1992 to provide advanced technical assistance and leading-edge programs to minority business enterprises (MBEs) in 10 Midwest states. It is operated by a team of established consulting firms that includes Target Group Inc.

While the MEGA Center provides clients a number of business-building services, Target Group focuses on the construction industry, providing MBEs technical assistance in construction matters. A key element of that effort was the formation of the Surety Development Committee.

In this first-of-its-kind effort, bonding agency representatives have volunteered their time and expertise to match MBEs with bonding sources that can best meet their needs. "We have proved that, by working together, we have found a solution to the bonding dilemma," says Stephen J. Leite, committee member from Robert Keith & Associates.

Amwest Surety specializes in underwriting surety bonds, especially for small contractors. The "A-rated" firm will streamline application procedures and use special underwriting criteria for MEGA Center clients.

Target Group Inc. is a consulting firm dedicated to building ties between minority and majority-owned firms.

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Mr. SPRATT. Thank you very much indeed. We appreciate your testimony. And let me turn first to Congressman Rush for questions to the whole panel.

Mr. RUSH. Thank you, Mr. Chairman. I want to say this was an outstanding panel of witnesses. They have certainly penetrated a number of issues in their testimony. They have indicated their vast knowledge of the issues as it relates to and as it affects small minority-owned and women-owned businesses.

I have some particular questions here that I want to address, first of all, to Mr. Leite. How many applications for surety bonds do you process, say on an annual basis?

Mr. LEITE. The committee has only been in existence for this year thus far. We have reviewed 15 applications as of our committee meeting last Wednesday.

Mr. RUSH. And out of the 15, how many have you approved?

Mr. LEITE. Twelve, sir.

Mr. RUSH. You have approved 12. And how many of them were minority or women-owned businesses?

Mr. LEITE. All of the applicants were minority-owned businesses.

Mr. RUSH. All of them were minority-owned businesses.

Mr. WILLIAMS. Congressman, for the record, could I make the statement that the Surety Access Committee is a committee that was formed as a result of the new MBDA MEGA Center that came into existence actually in December of this past year. Target Group had the responsibility to maintain the construction component, and the Surety Access Committee is a committee that we formed in order to fulfill the requirements of assuring that minority contractors had the opportunity to get bonds.

We have been working with women-owned contractors, through the Women's Business Development Center and the Women Owners and Executives in Construction, and have been trying to assist women contractors on a pro bono basis because there is no formal program in place to assist women in this same area. So that is the reason why, when he says 12 minority contractors have been approved, we have not been able to approve anything for women because we do not have a program that exists to assist women.

Mr. RUSH. Yes, I was kind of curious—well more than curious with the statement that there is no problem other than the fact—that there is ready access to surety bonds and the only problem is that minorities do not know where to go to get them. I think that is certainly not indicative of the current situation.

Mr. WILLIAMS. We do not want to make the case that this is the end-all, be-all. I think what Steve said is correct. Ultimately, to get a bond, you have to be qualified and there are some financial requirements and there is some performance required that comes into play there. I think the strength of this committee is that you have five different agents who represent some—how many markets?

Mr. LEITE. It is difficult to say, but I would say that there are probably 50 to 100 markets represented.

Mr. WILLIAMS. You have got five different agents who are representing at least 50 different markets where a bond could be placed. Some of them might be standard markets; some of them might be specialty markets. But what is happening is that as these

minority firms are coming in and are being educated about what you have to do in order to get bonds, the surety agents themselves are becoming more comfortable with them; and therefore, they are willing to make a recommendation that they probably would not recommend if they did not know them at all. So it is the exposure to each other that seems to be making the difference here.

Mr. RUSH. OK. Mr. Copelin, you had some very interesting suggestions in your testimony. Can you expound a little bit on the perceptual problem that you think—it seems to me that what you are saying is that that is the major problem.

Mr. COPELIN. Let me be more specific, Congressman. I hate to come here and meddle; but I would like to comment on the Surety Access Committee and their goals, which I applaud. And let me preface my comments by saying I have been making payroll since 1969 and have not missed one yet, and my combined companies do between \$30 million and \$50 million a year. But when you look at the reality of what happens in the bonding world—and it is no reflection on anybody at this table, it is the industry—the bottom line is bonding companies do not take risk. They flat do not take risk.

What they in fact do, in my opinion, is extend courtesies. Now what does that mean? That means unless you have enough collateral, almost dollar for dollar, whether it is \$1 million job or a \$100 million job, you are flat not going to get the bond. The question of performance—and I have talked with every major underwriter in the country on this subject matter—is not as critical as that of control. And by that I mean, they are more concerned about, if a contractor gets a payment, whether they are going to pay the lumber company or pay the cement company or do something else with the money.

The reason why I say it is attitude—and I can give you some specific examples without calling the company's name—one of our members in Louisiana is an 8(a) contractor and on his own can get about a \$10 million to \$20 million bond. He has done well. He is a third-generation African American contractor, his family has been in the business, his brothers and he grew up in it. I met with him on this whole subject about 2 weeks ago, and he literally had to leave Louisiana to get a bond rating. And the reason why he had to leave Louisiana, I was told, was because his major white competition called the bond underwriters and said, "Look, you cannot be writing bonds for this gentlemen. He is competing in our market." When they found out that he was getting the bond—I think he was getting it through an underwriter in Texas—the underwriter in Texas was told that that was not part of his "territory," and he no longer could write a bond for this company, which then threw him back to the market in Louisiana, and he was confronted with a situation where he had problems getting the \$10 million bond he wanted.

Now I hate to just kind of sound like I am dumping on the industry because I am not. I understand risk and reward. But if we are going to solve the surety bond problem, we have to put the cards on the table and start from square one, and not talk about technical assistance and meetings and whether you know somebody and all that sort of nonsense. It is just business, and I did not fly all these miles to sugarcoat this.

I mean, the NBL has taken a very strong position on bonding for minority contractors. Let me give you an example of some things that we are focusing on. We have decided that the one person who controls this whole process is the owner, the developer. For example, in the State of Louisiana, assuming everything processes through, we are going to have the largest casino in the world. Now the operator has not been finally designated, but there are some preliminary approvals that have taken place. We have a clear understanding—we being the National Business League and the Louisiana Business League, of which the Louisiana Contractors' Association is an affiliate—that there will be a substantial amount of work set-aside for black contractors. The biggest problem that we have had, and we have only been able to work it because we have had full cooperation with the owner, is how do you get them bonded. You only have about two or three who, in fact, can do a bond for \$5 million to \$10 million. If you are doing a \$400 million project, you cannot break it up, even though they are trying to do that, into small portions where you might give a guy a \$10 million piece and break it up into five \$2 million pieces and roll a bond over and that kind of thing.

But what they have done is put in their specifications to the majority contractors, you are not going out and shop it, you are not going to pick what African American firm you are going to do business with, but part of our specification is that you will do this and you will assist in providing the bond.

Now one thing that I think you all can do is, SBA right now, as I appreciate it, their guarantee on the bond side has a max of, I think, \$1.5 million—these gentlemen probably know better than I do. I think it's \$1.5 million. We have some sureties prepared to go the full stroke. It would be most helpful if that limit was raised to \$5 million. Now I understand that that puts the government at more of a risk situation, but it gives the industry more comfort. I am convinced of this—and then I am going to conclude and you can ask me another question—the bonding piece can work for black and other minority contractors if we focus on the control side versus the performance side. Let me tell you something, I have been all over the country, and African Americans grew up in the industry. They know how to drive a nail, they know how to lay concrete, they know all the crafts. The missing link is the paper side, the equity side, the cash-flow side. I cannot drive a straight nail, but I can go to African American contractors and put up my equity and put up my infrastructure, and all of a sudden they qualify.

So what I am suggesting is that—and we are doing it in Louisiana and NBL is going to do it in five different States where we think that there is a lot of action, the Olympics in Atlanta—we are coming to Chicago and a few other places, but that is what you have to build in.

And in conclusion, I am saying that we need to sort of just close the book and rewrite it and not talk about how we edit it to make it work. Because what we are asking you to do is to allow African Americans to compete with majority companies, and nobody wants to give up a piece of the action. So, therefore, with their influence in the industry—and I would probably do the same thing if I was on the other side, I guess—once affirmative action becomes the law

of the land, certain groups strategically attempt to stymie implementation. And some bureaucrats are supportive of it and they try to knock those barriers down. Some bureaucrats have the same philosophy that they have and they try to shore up how they can put obstacles in the way.

We are going to do it. One way or the other, we are going to do it, we are committed to do it. We want to do it in concert, not in conflict, but I just cannot sit here and say well somebody did not pass the test and that is why they did not get a bond. Because I will tell you that, if you are white and you do not have the right equity, you are not going to get a bond. It is a greed problem, it is not really a black and white problem.

Mr. RUSH. I appreciate your remarks. Can you expound on the role of the Federal Government—you have indicated some things that are happening in New Orleans and how you are approaching it. The Federal Government, I understand, is the largest contractual entity, and it seems to me we have a special need, a special requirement for the Federal Government to be much more proactive in influencing surety companies—particularly with those contracts that are let by the Federal Government, government contracts—that we have a particular need to make sure that fairness exists in those policies; that for contractors or for Federal contracts, no matter what the amount is, that there be an aggressive and rigidly enforced, well-documented system by which surety companies who do not come under Federal law, that they, because from the business point of view, in fact, operate in terms of the spirit of what we are trying to do, in terms of increasing opportunities for women and minority-owned businesses.

Mr. COPELIN. I think there are two words—enforcement and incentive. By that I mean, any industry needs to be given incentives to do what government wants them to do. We do it all the time, whether it is a tax incentive or whether it is—and that is the best incentive you probably could give a fellow, so let me kind of focus on that one; the other one is enforcement. There are laws on the books now, State and Federal laws, that are flat not being enforced. The situation I described with the surety in Louisiana is a violation but nobody enforces the law—there was not a State or local prosecutor or any regulatory agency that I am aware of that was even prepared to look into it. It was not a priority. And I think that there are laws on the books, if enforced, could correct some of this. But I think incentives would be the more productive approach because basically I think the surety underwriters are not bad people, they are just good business people. If you are a good business person, you take as little risk as you have to. Therefore, I think the better approach would be to give them the incentives to take the risk. If this current administration—and it is probably not a good time to say this—and you in Congress are, in fact, going to raise my taxes like you say you are going to raise them, then I think there ought to be something in there that says if, in fact, you can extend certain courtesies to African American contractors and other business people, you will get some tax breaks. You will get some response if you do that. Not just from the white community, from me and other folks in the black community, too. That is what it is going to take.

I do not think the Federal Government has to be the bad guy to go around and knock people over the head with a stick and say you broke this or you broke that law. That may be part of what you need to do, but the other thing I think you could do is be the good guy and give some encouragement to that industry to write bonds. I would be glad to visit with you and talk about specifically how I think we could do that.

Mr. RUSH. Mr. Williams.

Mr. WILLIAMS. Congressman, just to follow up on that point. It should be noted that the Federal Government sets the rules by which a lot of surety companies actually determine what a bond is required for. I think that there is a point where the Federal Government could look at the rules that they set to determine what type of bonds are required on the projects that they are involved in. Some type of review of that ought to tell you that probably the government, the Federal Government particularly, has more rules and regulations that requires the type of bond that you have than maybe anybody else that builds buildings or does anything else. So a relaxation of some of those rules would be a positive step to go to the industry with, if you really want the industry to support you on assisting minority and women-owned contractors as far as what type of bonds they require.

Mr. COPELIN. Mr. Williams is correct, because, for example, he mentioned—I think it was in his testimony—that a contractor in Chicago had successfully bid on a post office, I think it was, and he had a B-rated bond rather than an A-rated bond. There are rules that say under certain procurements, you have got to have a Treasury-listed company. That is not there by accident; that is there because that is one of the obstacles the AGC put in there when African Americans and other minorities started getting work. So they said how do we stop that. They said well, let us say they have got to be Treasury-listed, that is, our folks can kind of have some input on that.

Also, I think you ought to really look at taking a letter of credit in lieu of a bond. Because, if you could take a letter of credit and you took a contractor who maybe could in fact perform a \$5 million job, but does not have the equity, but somebody was prepared to put up the equity and you got the letter of credit, the next time he went, the bonding company would say, "well, what was your last job?" He says well I performed successfully on a \$5 million job; and if he does it right, he ought to have some equity out of that job that he would have in the bank to take the next step forward.

Mr. RUSH. So you are saying that there is not only a requirement—well, let me ask it in the form of a question. What are the levels of requirements for a bond, you know, to get Federal contracts? You have to have A-rated bonds, is that what you are saying?

Mr. WILLIAMS. Treasury listed.

Mr. RUSH. Is there a difference between a Treasury bond and an A-rated bond?

Mr. LEITE. No, sir, there are different qualifications. The Federal Government has prequalified surety companies and puts them on a list in the Federal Register. It is renewed every July. It lists those companies that are prequalified with the Federal Govern-

ment to provide bonds on Federal contracts, and that is the Treasury list of surety companies. The ratings that were talked about, A, B, et cetera, are established by industry, private organizations. A.M. Best is the best known. There are three or four national companies that rate surety companies based on performance and service and based on financial strength.

Now we have seen some difficulties with agencies at the State level and other levels where they would require, for example, a B-rated six company, six being the financial level from 1 to 15 that the surety company has financial reserves to support losses. So, if a company at B-6 is sort of a middle-of-the-road type of a company and we have a surety company rated A or above five, the agency has not allowed that bond to go in on that project. The difference between those two ratings is so minute that it is a hindrance to the contractor. So, that is an example of what they are talking about.

Mr. RUSH. Mr. Chairman, I just have two more questions.

Mr. SPRATT. You take your time.

Mr. RUSH. I want to ask, Mr. Ramirez, can you comment on the idea of centralizing Federal procurement activities in one entity? Do you think that would be helpful or harmful to the promotion of minority and women-owned business opportunities?

Mr. RAMIREZ. We think so, Congressman. Currently——

Mr. RUSH. Do you think it would be helpful or harmful?

Mr. RAMIREZ. We think it would be very helpful for the various minority business development centers to get to work and coordinate with the SBA. We are fortunate that it was established here in Chicago and is representing the Midwest region. But by giving us assistance here in this area, we feel that the commitment that we are going to be getting directly from them is surpassing the support we are getting from the SBA.

Case in point, right now the SBA is set up with a minimum amount of business opportunity specialists. They have had some cutbacks, and the MEGA Center has been supporting us to do some self-marketing and some research development in looking at the various areas for procurement. It is all up to us to do our self-marketing and we understand that. When we visit various procurement centers or procurement representatives, PCR's, we are kind of shutdown straight out because they said that they have already set the project aside for small disadvantaged businesses or sent it out unrestricted. The SBA is not aware of those projects at the beginning for minority set-aside. So in this case, the MEGA Center can identify at the preplanning stage, that is at the early stages of engineering, that those various projects are up and coming, and thus be able to notify minority businesses of the opportunities to seek business through them.

Mr. RUSH. And finally, Mr. Leite, I want to ask you again, your committee has been in formation for 1 year at this point, is that right, about 1 year?

Mr. LEITE. Just under 1 year, yes.

Mr. RUSH. Can you compare your efforts with the efforts of the SBA? Can you compare the process and also the results, outcomes in terms of how you think your organization performs and how the SBA performs?

Mr. LEITE. First of all, let me say that we have completely different functions, so it is going to be difficult to compare. The SBA program basically reviews applications according to their rules and regulations and decides if they are going to issue a guarantee on a bond, which is then issued by a bonding company. Our committee is made up of mostly bond specialists, bond agents, and one surety company. So what we are doing is we are really working with contractors to formulate their application to a bonding company, and we are also, I think, working on the advocacy side. I do not want to diminish the difficulties of contractors at every level to obtain bonding, and I am not advocating a pristine position for the surety companies—not at all. But there is some give and take, and I think what our committee does is take the process from the beginning where the contractor is right now. We have a contractor who applied who was 2 months old in business, and we have other contractors who have been in operation many, many years. We need to sit down with them and indicate to them that, if you are going to be taking on projects, you need to have a bank line of credit or you have to have some financing, and assist them with establishing it. They have to have some ability to maintain records for cost accounting on individual projects; we assist them with that. So there are a lot of things that need to be done, the practical side, and that is what we will do. Then we will take the contractor's portfolio and go to a surety company, and no matter how many we have to go to, we will. We have a lot of companies represented by our committee members who will get the bond written.

Mr. RUSH. Thank you very much. Thank you, Mr. Chairman.

Mr. SPRATT. Thank you, Mr. Rush.

Let me first say to the panel, I think that the testimony you brought here from different perspectives has been extremely useful and informative for me.

Let me start with this line of inquiry with you, as follows: What is wrong with raising the limit? Now Mr. Leite, you make the point that to some extent this would victimize small businesses because small business contractors have small business vendors and sub-contractors; and, if they default on a project, then they do not pay their trade credit. Consequently, other small businesses suffer as a result. Is there another reason, except for that, for not raising the limits say to \$100,000, \$500,000? The government can self-insure.

Have you built buildings yourself before? I have built buildings myself. I have built buildings that cost \$500,000, and I did not bother to get a surety bond because I knew the contractor was going to add a premium onto the project, and I would not deal with a contractor in the first place if I did not think he was a capable contractor. I did not want to deal with the bonding company in building the building; I wanted this particular contractor. I picked him, had confidence in him, so I did not want to pay another 3 percent on the job to get a surety bond, a material bond for his performance. Why can the government not, with its deep pockets anyway and plenty of resources if a contractor goes into default—why can the government not simply take the risk on some of these projects?

Mr. LEITE. Well, sir, it can.

Mr. SPRATT. I mean, I am not browbeating you, you do not work for the government—

Mr. LEITE. My point is that if we are talking about a small company, the limits that we are talking about are certainly small, \$100,000 or less or under \$250,000. Bonding is available at those levels to contractors. It may be that the contractor has never done a financial statement and knows what the financial resources of the company is. If he sits down with an accountant and prepares a financial report we can make an assessment or we can provide support for him to make an improvement that is necessary and get the surety bond. You can raise the standards, but see, the industry itself is a standard, there is a built-in standard here. And if you begin to eliminate the standards, how far do you go? And then what are the consequences?

Mr. SPRATT. Well I am not saying that you raise the ceiling to infinity, but at some point, say half a million dollars, the government can certainly afford to take that risk, and what it does is it provides small contractors an opportunity to prove their mettle.

Mr. LEITE. And on my experience in the industry, I am saying that at those levels, contractors can be bonded.

Mr. SPRATT. Mr. Copelin.

Mr. COPELIN. Yes, I want to speak to that issue. First of all, you hit a home run, right? I agree with you.

Second, that is one way to get the industry's attention. It is interesting that the industry would say that you can get a bond from \$200,000 to \$250,000. There are two problems with that. Problem No. 1, it is not exactly correct. And problem No. 2 is that most jobs are not \$200,000 to \$250,000 jobs.

Now let us talk about why it is not exactly correct, and that is—

Mr. SPRATT. You mean they are smaller jobs or larger jobs?

Mr. COPELIN. Smaller jobs.

Mr. SPRATT. Most jobs are bigger than that?

Mr. COPELIN. Most jobs are bigger than that. But let us talk about anybody who can get a quarter of a million dollar bond. I had some members recently—and I have been working very closely with the sureties—who showed me in a computer that from zero to about, I think it is 1½ million, I am no expert, correct me when I am in error, the losses are very little. Therefore, the underwriters are almost as you described previously, they really feel like they do not need a bond. They do not mind writing it because there is little risk and they make good off the premiums. That is good business, they ought to do that.

But when you send somebody to them like that, if they do not have the collateral or equity, money in the bank, they are not going to write it. They do not tell you that part. They can have the performance, they can have everything else. If they cannot show a statement that in essence matches their request, they are not going to get the bond.

I think you have an excellent idea. I think the government can take the risk. And I will take it a step further. I think what the government ought to do is say, if it's half million dollars or less—or pick \$1 million, I do not know why you would start at half a million. Whatever the comfortable number is and the politically

feasible number is, take it a step further and build in some controls, because you as a Congressman or the government would have egg on their face if the program failed, and it should succeed.

The way to make it succeed is to put some controls in place that you can do in essence what these gentlemen are doing. You can say OK, let us make sure you have your books right, let us make sure when you get your payment, you pay the lumber company and not go buy a Mercedes Benz or whatever makes you happy. Let us make sure you have got the right controls on the job and let us make sure after you complete the job successfully and you have the right controls. Let us make sure you do not spend all your money, if you have not paid your taxes. Keep some in the company so you have an equity base; and that way, when you go to the private sector, you can say I performed on this job and I have a track record, that you can look at, then you are in the ballgame.

Mr. SPRATT. That is true.

Mr. COPELIN. I think it is an excellent idea and I would endorse it.

Mr. SPRATT. Let me throw out another idea, just to test it among all four of you, and I will come to you, Mr. Williams, as soon as I have done so.

Is it possible that what the government is doing routinely and generally when requiring performance bonds and surety bonds, is simply saying to the insurance companies of America, "you make the management judgment about this firm; we do not really have the people to make that judgment. You determine whether their current ratio is what it ought to be, and whether they have tangible equity sufficient to carry the trade credit throughout this particular job and to sustain a loss if they have one—you make that determination, we do not really have the ability, the time, the inclination to do it." So the insurance companies do. They have got their capital; they have got their assets at risk in making this decision to underwrite that particular business—is that what the government is really doing?

Mr. COPELIN. Not only is the government doing that, you are paying them well to do it.

Mr. SPRATT. Sure, we are paying a premium to get the job done.

Mr. COPELIN. If you took the moneys that you invested in premiums on surety bonds throughout the United States and allocated a portion of that money, so it would not cost the government any more money because you would not be paying it off on the jobs whether it was Defense or whether it was whatever—

Mr. SPRATT. But to do that, as you were saying, the government has got to have its own control, because you cannot willy nilly put out contracts to just any contractor who walks in with a pickup truck and a typewriter—

Mr. COPELIN. Absolutely, that is right.

Mr. SPRATT [continuing]. And who thinks he is a contractor. You have got to have some sort of controls to be sure that he can do the work.

Mr. COPELIN. I think that is right.

Mr. WILLIAMS. Chairman Spratt, I would say to you going further, I think that the government has a redundancy here. Not only do you have the industry required to do all of this, but you do

have—it is not like you are not doing this internally, you have a redundancy within your own system that in some way parallels what the industry is doing anyway. And I am not sure that you need that redundancy, either from the industry point of view or your point of view.

But let me go back and address the question—

Mr. SPRATT. The question I was asking though is: Do we really have that redundancy? Do we have the capacity in-house to do it as well as the insurance companies? I think we do not, and I think we know it, and therefore we let the insurance companies do it for us.

Mr. WILLIAMS. Well let me—

Mr. SPRATT. So I think we would need to develop the capacity if we went to that approach.

Mr. WILLIAMS. Let me just say in one department, I would like to at least alert you to why that might not be true. Take a look at the General Services Administration, you do have that whole mechanism to determine how bonding should be done in place. But you are still out in the marketplace to get the industry to do the same thing. Now I do not know if that exists in the other departments, but in that one department, I am pretty comfortable in saying that you do have that redundancy in place.

Let me go back to the point about increasing the limits. I think that your point about the fact that on certain bonds, not having to have a bond at all is great, and I think that the industry traditionally for smaller contracts has always insured that you did not have to be bonded, because it is a cost-saving technique for everybody involved. But that industry also has always tended to give those contracts to people that they know.

Mr. SPRATT. Yes.

Mr. WILLIAMS. They have not tended to give those contracts to just the new guy on the block, particularly if he is a minority or if he is a woman.

Mr. SPRATT. That is a good point.

Mr. WILLIAMS. So my point is that yes, increasing the floor is fine, but I think that once again, you have got to have somebody in the system, a prequalification system that is fair, that lets people get into that program. Otherwise, the government, when they take the responsibility for increasing the bond level, they are going to come up with so many cumbersome rules and requirements that you will shut minorities and women out of the process once again.

Mr. SPRATT. Mr. Leite.

Mr. LEITE. A couple of comments here for the record. First of all, I really do not think that the government, as you point out, Mr. Chairman, has the ability to self-insure. First of all, we are talking about tax dollars of which I share a good portion and I do not believe that tax dollars should be put at risk unnecessarily.

Second, what we are dealing with is a market economy. If you have insurance companies out there with a product where there is a need to buy it, they are going to make adjustments, as they will. You have got contractors who need bonding and what we have found—look at the last 3 years, the largest surety companies in the country have begun issuing bonds for small businesses at a level that they did not for maybe 15 or 20 years. Because of the outcry

from small businesses, they hooked up with the SBA-guarantee program. These companies are now taking advantage of the SBA-guarantee program, but they are still issuing bonds, which means more small contractors are in the marketplace.

In addition, in the last 5 years or more, we have seen companies come into the bond market who were not there previously. These are regional companies, smaller insurance companies, who see the niche that is not being filled by your huge national insurance companies to provide bonds to small businesses. So the niche is there and it is being filled. Maybe not as fast as some would like, maybe not as efficiently or equitably as some would like, but these, you know, market mechanisms do work. And that is happening.

Oh, lastly, let me—

Mr. SPRATT. Well, we have a major debate as to whether or not they do work. The others on the panel are looking on skeptically as you assert that they work. There have been so many cases where they have not worked, and there are still people who cannot get bonding out there.

I used to be in this business. I had a lot of small business clients. I was in the banking business and I loaned money to people who were small business people typically, small volume. Those who had to get surety bonds, then and now, always had this chicken and egg problem of proving that they could do this sort of work, and they could only prove that they could do this sort of work to get a bond by actually going out and doing it not once but three or four times, bringing the project in on schedule, on time, and on cost. Then they established the sort of stature that was necessary to get the attention of the bonding company and convince Marsh & McLennan, their agent or somebody like them, that they could indeed perform. And these clients never could get out of that vicious cycle. So typically they looked around for local construction work, private contractors who did not require surety bonds and they made it on their own, if they had their mettle, without getting any government business.

In the long run, I think the government probably paid more because I think if the universe or pool of small contractors who were bidding the work had been more open and available and easier for access, then they would have driven down costs. Typically they were lower cost providers anyway.

Mr. Copelin.

Mr. COPELIN. I would like to speak to the record in regard to the statement the gentleman made that said he is a substantial taxpayer and tax dollars would be at risk if your proposal was implemented. And I would like to say I am a substantial taxpayer and I do not think they will be at risk. And the reason why I do not think they will be at risk is because you clearly qualified your statement about the proposal by saying the controls would have to be put in place. Then Mr. Williams said in his opinion at the GSA, I think it was, some controls are already in place. So I would not like for somebody to pick up the report and read it and say well this is a great idea the chairman has except we cannot put the tax dollars at risk. You are not putting any tax dollars at risk by doing this, in my opinion.

In addition, I think the response that you are now getting from the industry is going to be loud and clear because Mr. Leite is correct, there is a whole new cadre of professionals out there who are now saying here is a new niche in the market, and that is good. Let us start these regional companies and we can make some money, and that is good, by providing bonds to the small contractors. Except if you track that, and I have to some degree, what happens is the new surety underwriters end up making more money than the small black contractors we are trying to put in business. They do not get in business.

Now if I was here trying to talk about how to put surety people in business, I would support that. That is not why I came. I came to talk about how black contractors get in business, and more than that, how some black contractors currently in business, 8(a) contractors, are going out of business.

I walked in here—I guess I am talking out of school, you can tap me on my shoulder if I am—and talked to a gentleman I met for the first time, who is a successful 8(a) contractor who, in fact, cannot get a bond. He is a great guy because he is from Louisiana, he is from New Orleans, he just happened to live in Chicago for 30 years. And here is a guy who got a job, performed on the job and now the government is hassling him, and I do not know any details about it, over \$18,000—they are holding \$18,000 of his money because they want a \$5,000 adjustment. Now that is just bureaucracy. No matter who is right or who is wrong, I guarantee you for \$18,000 the government and the contractor is better off if they sit in the room and work it out, rather than taking 2 or 3 years with lawyers and adjusters or whatever else goes on, to try to work it out. I would not do that in my business and you would not do it in yours.

So without getting on the soap, I think it is an excellent idea. The National Business League would be prepared to work with you and the Congress to try and implement it, and I do not think you are putting tax dollars at risk, if you do it right. And when you do that, you are going to get more contractors in the industry; and when you get more contractors in the industry, you are going to get a better bang for the buck because anybody who believes the public bid process is the most efficient way to do business, does not understand business. If you have a handful of contractors who are controlling the industry, you know what is going to happen and I know what is going to happen. But if you open it up to all these folks behind me and people who are not here this morning and you let them become competitors in the industry, you are going to get a better price. The government is going to get a better price.

Mr. SPRATT. Mr. Ramirez.

Mr. RAMIREZ. Chairman and Congressman, currently you have under Federal Acquisition Regulations a law stating that any SBA 8(a) contractor has the opportunity to ask for a waiver of a surety bond. This law currently is not being implemented. They do not even—I am talking about the contracting officers—explain it to the 8(a) contractors of the availability of this law.

Mr. SPRATT. What are the regulatory requirements?

Mr. RAMIREZ. The regulatory requirements are being an SBA 8(a) contractor and that they have the credibility, the capability to

successfully compete these projects. And we would like to know why this law is not currently being enforced. That is one thing.

Mr. SPRATT. Can SBA itself make the waiver decision about a particular procurement or do GSA, Veterans' Administration, HUD, the primary agency make that determination?

Mr. RAMIREZ. Currently SBA has some legal people in their office that evaluate, I believe, the criteria that these SBA contractors must fulfill. But it all goes back to the Treasury listed bonds. So that, in essence, is one of the forces that are holding us back in terms of meeting those requirements.

Mr. SPRATT. Well, let me ask Mr. Leite, is there any reason the government should not, on projects let's say under \$1 million, take the slight risk of going with less than a A-rated surety bonding firm?

Mr. LEITE. No. A surety firm does not have to be A-rated to be a substantial financial resource.

Mr. SPRATT. And if the government said, "we will consider other than Best A-rated surety bonding houses," would it expand the availability of surety bonds substantially, just by that decision alone?

Mr. LEITE. Well, it would expand it in my experience. I do not know if statistically you can say substantially, but it certainly would expand it.

Mr. SPRATT. Are there a lot of bonding firms with a classification under A which are eager to get into this business and would be in it if the government was seeking their surety bonds?

Mr. LEITE. There are a lot of B-rated companies with financial ratings of under 6, 5, B-5 companies, that provide bonds and are willing to in the marketplace, but are excluded from State and government agencies.

Mr. SPRATT. How often do these firms fail?

Mr. LEITE. Well, statistically, I cannot answer that.

Mr. SPRATT. But it is not very frequently. And we are talking about a fairly confined event, whether or not a company can perform a particular project. We are not talking about Hurricane Andrew or Hurricane Hugo, something like that.

Mr. LEITE. That is exactly right. The risk or the volume of the risk is a lot smaller. And, in the few years that I have been a surety specialist, I have seen some companies go out of business, but at that level they are not providing single bonds of \$100 million or more. We are talking about manageable companies for small and medium-sized businesses. So these companies usually are around for the long haul.

Mr. SPRATT. Let me ask you a few other questions before we let this panel go, because I think we have, not only a wealth of experience and information, but a good cross section and a good range of such.

Just taking this process of trying to develop minority and women-owned business opportunities step-by-step, let's start with the identification of contract opportunities. How well does that work? I have heard testimony at least from one of you that, right there at the inception, it does not work well at all; it is too little, too late.

Mr. RAMIREZ. That is right, Mr. Chairman, that is the bottom line right now, the availability. Contracts are not out there for minorities to procure. It is so hard going through the mainstream. The PCR's, the procurement officers, currently are shying away from anyone representing a minority contractor and they pass the buck. They say go back to your SBA agency, submit a proper formatted letter and submit that through the proper channels. By then it is too late, the jobs have long gone and so has the availability to get that contract.

Mr. SPRATT. So one thing we could clearly do to help the situation is to have SBA be on its toes, having an early warning system so that it sees these opportunities coming along. Now SBA has limited resources. Obviously, if we want to help SBA, we simply have to put the word out to the other government agencies, which are the job-generating sources, that they have got to work with SBA—

Mr. RAMIREZ. That is right.

Mr. SPRATT [continuing]. Put more burden upon them to let SBA know sooner of the opportunities that are coming along.

I don't want to preclude the rest of you, excuse me. Mr. Copelin.

Mr. COPELIN. On identification, I think if possible, we ought to try to take it a step further. And by that, I mean this: Not simply saying the Corps of Engineers has five projects that will be let in January 1994 and they send out a notification and get it to this fine gentleman and he gets it to his membership and they try to procure it. That is one form of identification. A better form of identification is for SBA, or whomever may be appropriate, to participate in how they design and build. Then what they could say is, I have talked with the 8(a) contractors and you ought not let on January 1, 1994, five projects at \$50 million, you ought to let 20 projects at \$10 million. So an identification goes a lot deeper than simply putting a notice in the Commerce Business Daily or the Wall Street Journal that we have some work available.

Mr. SPRATT. OK, so you cut them in sooner, particularly if it is sort of a design-built contract.

Mr. COPELIN. Absolutely.

Mr. SPRATT. Mr. Williams.

Mr. WILLIAMS. I would agree totally with Mr. Copelin on that. I think that every major building project and development project in this country has a defined planning phase. Minorities and women are always left out in any kind of design or any kind of planning phase for these projects, and that is why when we first know about them, at a point in time when they are on the street, it is traditionally too late for us to really have an opportunity to get our forces or our resources together to react. So clearly for every project over a certain level that has a defined planning phase, ensuring that whether it is the SADFU's in each one of the agencies or whether you have a defined representative that is put into that planning process to ensure that they will in fact know what the impact that opportunity will have on minority and women business communities is something that could be done that would be an early warning or an early information process that the minority and women's business community could use effectively to ensure that they did

get an opportunity to get their resources in place to compete when it was time to compete.

Mr. COPELIN. And one check and balance under the theory that he who controls the purse strings controls might be that when an agency comes before the Appropriations Committees to get final appropriations for their project, they are required to submit to the Appropriations Committees of the Congress a plan that supports what we are talking about.

Mr. SPRATT. Well, we really do not get down to this level of detail in appropriating billions of dollars in the appropriations process.

Mr. COPELIN. I know, but you could. I do not either at the State level, but when I want to, I can.

Mr. SPRATT. We can say to Federal agencies, as part of planning, "You identify early in the planning stages those parts of the project that clearly can be done by small business minority-owned firms."

Now the next thing you need to do is that your agencies of the Federal Government need to understand their constituencies; they need to understand the small business constituency. The SBA, of course, is the advocate, but it would seem to me that if HUD, NASA, Department of Energy, and VA are really into supporting this program, then they are going to ferret out these firms in their local community, which are doing good work and have done good work before. They will be proactive, as Congressman Rush put it, and they will know the constituencies better than anybody else. How well is that done?

Mr. COPELIN. It is not done at all.

Mr. RAMIREZ. It is not done.

Mr. COPELIN. Not done at all.

Mr. SPRATT. Let me go down these firms quickly and then we need to get on with the hearing. I do not want to preclude any further questions that Congressman Rush wants to ask either, but we were curious and we asked about Section 8(a) contracts in the SBA Chicago region, to find out who is doing the best in the program.

[SUBCOMMITTEE NOTE.—The data referred to by Mr. Spratt was provided by SBA and was compiled by staff, as follows:]

Section 8(a) Contracts within SBA Chicago Region -- FY 1992
 [Compiled from current SBA regional office data]

<u>AGENCY</u>	<u>No. of Contracts</u>	<u>Total \$ value of Contracts</u>
Air Force	12	\$23,724,540.28
Army	67	46,394,342.90
Census	1	481,046.66
Coast Guard	1	7,830.00
Courts	1	2,500,000.00
DGSC	1	445,551.00
DHHS	1	339,339.00
DIPEC	4	788,804.75
DLA	3	2,538,777.46
DOD	1	63,491.00
DOE	8	258,783.80
DOT	1	109,221.12
DPSC	1	246,476.80
FAA	9	3,958,775.43
Fed Law En	1	40,214.00
GSA	13	7,833,921.87
IRS	22	10,619,579.96
LOC	1	1,401,114.60
NAVY	6	2,832,103.92
PRISONS	4	196,146.69
RRRB	4	352,007.00
SBA	1	55,707.00
SCS	1	127,354.23
SEC	1	200,000.00

SECRET SVS	1	1,054,000.00
TREASURY	1	71,204.00
USDA	2	166,511.00
USPFO	6	953,819.36
DVA	25	4,336,399.43
TOTAL		\$112,097,063.94
Modifications		19,641,108.00
FY 1992 Contracts & Modifications		\$131,738,172.00

Section 8(a) Contracts within SBA Chicago Region -- FY 1993 (1st half)
 [Compiled from current SBA regional office data]

<u>AGENCY</u>	<u>No. of Contracts</u>	<u>Total \$ value of Contracts</u>
Air Force	8	\$3,915,071.88
Army	17	6,873,993.62
Census	1	495,303.21
DGSC	1	193,309.20
DEF DIST	1	48,276.00
DISA	1	35,104.00
FAA	3	329,203.96
GSA	2	4,480,618.80
IRS	6	791,773.18
LABOR	2	422,295.00
NAVY	6	3,061,447.50
NRC	1	43,798.00
PRISONS	1	246,097.90
SBA	2	131,005.25
USPFO	1	59,891.76
DVA	6	2,265,231.00
TOTAL		\$23,392,420.26
Modifications		5,506,230.00
FY 1993 Total Contracts & Modifications		\$28,898,650.00

Mr. SPRATT. DOD is not doing so badly in terms of dollar volume; Army, Air Force are pretty big dollar values. It is hard to know exactly what that business is.

It is interesting to see that you apparently have a problem with HUD. Is it your feeling that HUD is doing all that it could with the work that it has got under its portfolio, in farming that work out and trying to find minority firms who could do it? For example, it would seem to me that property management is an area where small firms could move in, take over foreclosed properties and manage them until the properties are disposed of. And yet I understand that HUD, because it has gotten burned on this before, has been reluctant to engage small minority-owned firms. Do you have experience with that, that could explain HUD's attitude?

Mr. COPELIN. I cannot give you a direct experience, but I think you make interesting observations when you say HUD had a bad experience and the firm got burned. That is unfortunate, but simply because there is one fire, you cannot stop living.

Mr. SPRATT. Well, it might have been several experiences, who knows.

Mr. COPELIN. If there was 100, the point I make is that, with the Defense Department—and I am not trying to compare ugliness, but the majority firms have the same problems, but they do not say well, we are not going to do any business with majority firms any more because we had some bad experiences, is the point I make. Yes, you are going to have some fallout. No matter what we collectively do, you are going to have some minority firms who fall by the wayside, some who do what is not correct, but that does not mean simply because you have 1 or 2 or 100 that you need to highlight folks, talk about the thousands that do not have that problem and we ought to focus on the good, not the bad, and weed out the bad and continue with the good.

My bottom line is HUD ought not stop doing that, if they did, simply because they had a bad experience and somebody had an audit and said so and so did something wrong or did not perform.

Mr. SPRATT. Mr. Williams.

Mr. WILLIAMS. Mr. Chairman, I hesitate in response, and as a Chicagoan, to your question, only because I was really trying to go back and think about the number of minorities and women that have even been allowed to play in this game. There has not been that many and as long as you have organizations like Presidential Towers that show up in the news where you have major losses by major white property managers—I mean we are not a factor yet. So we need to be a factor for us to give a critique as to whether or not we are really doing that. We are not a factor in this marketplace at this time.

Mr. COPELIN. But I can get you some specifics on that, Mr. Chairman, because one of our members is NARAB and they work very closely on that and I will make a note to get the chairman of that group to—

Mr. SPRATT. That would be useful for us.

Let me ask you this generally—accentuate the positive. Who is doing well in Chicago and in the Chicago region? Which agencies of government tend to be the most responsive, the most alert to op-

portunities, and the most aggressive about seeing that those opportunities are capitalized?

Mr. RAMIREZ. There is not really one agency that is highlighted out there right now.

Mr. WILLIAMS. I think recently the GSA on some of their major new structures have made some positive steps. They just finished the Ralph Metcalf Federal Center downtown, which had a recordsetting pace of the utilization of both minority and women contractors, sort of like a milestone record for the entire GSA operation nationally. They have replicated that process now in Detroit. They also had a process like that clearly in Oakland, CA. So on major building projects, the GSA is beginning to look at this with a different view. But other than that, I am not sure on the operations side, I don't know what their programs are.

Mr. SPRATT. Let me thank you. We have got to move on; we could talk the rest of the morning, because you have provided some enormously useful information and could provide more. But let me give Mr. Rush the opportunity to ask any further questions.

Mr. RUSH. Mr. Chairman, I have just one other question.

Recently I had a conversation with Secretary Peña of the Department of Transportation, and I asked him how he thought he might be able to be more helpful in encouraging minority and women-owned businesses. I asked him specifically about the dollar amount of contracts, that I thought there needed to be, again, some aggressive activities in terms of reducing the dollar amounts from these mega contracts, these humongous contracts, to bring them down to a level where we would have more competition for the contracts.

Can anybody comment on that, any witnesses?

Mr. WILLIAMS. I want to make the strong point here that the Department of Transportation has consistently had a disadvantaged business program and not a minority and women business program. You will hear testimony later on today that in cities like Chicago, we do not support disadvantaged business programs as much as we support minority and women business programs. As long as the goals are muddy because they are disadvantaged business programs, we think that the minority community specifically loses out on opportunities to be a larger player at the Department of Transportation as it relates to the kind of contracts that they let. I realize at the national level there has been continual discussion about separating the goals out and making them once again minority and women as versus DBE. That is something that we strongly support here because we do not feel that minority firms are serviced fairly or adequately by a disadvantaged business program.

Mr. COPELIN. I would like to just echo that feeling because if you look nationwide at most of the States, the so-called set-aside programs have in fact gone to white females and not African Americans. If anybody wanted to do a little research, it may perhaps even show that some of those successful females are descendants and have relations with some of the majority firms and that was not in fact the goal of the program. So I think it is clearly a situation where we have to separate out and say that we need to have—I think women ought to get everything they want, I am for that, but we ought to have a black piece. I am not trying to offend any other ethnic group and I am not trying to limit the definition of mi-

nority, but the bulk of my membership is African American and that is who I predominantly represent. I coordinate very closely with the Hispanic community and the Asian community, but it needs to be separated out, and it needs to be clearly separated out.

Mr. SPRATT. Thank you very much for coming. Let me ask you one final thing. If any of you have recommendations for changes in the laws and regulations that apply to these programs we have been discussing, the 8(a) program and in particular surety bonding, we would welcome them for the record so that we could weigh them and decide whether or not we can make a recommendation ourselves to the committees of Congress.

Mr. COPELIN. Thank you for the opportunity to appear here.

Mr. SPRATT. You have made a tremendous contribution and we really appreciate your coming. Thank you very much indeed.

Mr. RUSH. Mr. Chairman, while the next panel is assembling here, I wanted for the record to acknowledge the fact that State Senator Alice Palmer was in the room. I think she stepped out in the hallway, but State Senator Alice Palmer was a part of the audience here observing this hearing.

Mr. SPRATT. When she comes back, recognize her.

Let us decide how we will proceed. Let us go back to panel No. 1, which is composed of contractors and officials of contractor organizations. We were expecting Jerome Peters to be here representing the Black Contractors United. Mr. Peters.

Let me see if Theresa Kern of Women Construction Owners & Executives, Illinois chapter is here.

Ms. RATNER. She is not here.

Mr. SPRATT. Ray Mota, Hispanic American Construction Industry.

Ms. RATNER. Also not here.

Mr. SPRATT. Not here. Sam Chung, president, Association of Asian American Construction Enterprises.

Ms. RATNER. Not here.

Mr. SPRATT. OK. Now is Jerome Peters here?

Mr. PETERS. Yes, I am.

Mr. SPRATT. Mr. Peters, what we would invite you to do is join the other witnesses on the next panel. Come on up and testify.

Mr. PETERS. Mr. Spratt, we are going to submit written testimony at a later date, and we decline to testify at this time.

Mr. SPRATT. Thank you.

Let me invite the third panel to come up. The third panel consists of resource and technical assistance organizations. Ralph G. Moore, who is the president of Ralph G. Moore Associates; Hedy Ratner, who is the director, Women's Business Development Center, and Doris Davenport, who is the president of the MEGA Center, the Minority Enterprise Growth Center.

We have you listed Ralph Moore, Hedy Ratner, and Doris Davenport, in that order. The only reason I say that is I do not want to seem to be showing undue sexual preference in letting the man go first, but if there is no objection on the part of the two female witnesses, we will just take you in the order that you are listed. Mr. Moore of Ralph G. Moore Associates, welcome. I think we have your prepared testimony, and we will simply make it part of the record. That applies to you, Ms. Davenport, and to you, Ms. Ratner,

as well; all of your testimony is made part of the record so that you can summarize it.

Mr. Moore, you are the lead witness, you can take the floor.

STATEMENT OF RALPH G. MOORE, PRESIDENT, RALPH G. MOORE ASSOCIATES

Mr. MOORE. OK, fine. Mr. Chairman, Congressman Rush, members of the subcommittee, I am honored to appear before you to present this testimony.

My name is Ralph Moore, president of Ralph G. Moore & Associates, or RGMA. RGMA is a multifaceted management and information systems consulting firm with offices in Chicago, Herndon, VA and Milwaukee, WI. We are also in the 8(a) program. Founded in 1979, the firm specializes in strategic planning, program evaluations, information systems, and minority business development. RGMA has a staff of 60 and currently services a variety of minority business, corporations, and government clients, including HUD, DOE, SBA, and Baxter Healthcare Corp. In addition, the firm has a key role in the Chicago MEGA Center, which is the pilot minority business initiative funded by the Department of Commerce, MBDA. Since our inception, we have provided direct service to over 300 MBE's and delivered workshops and seminars to over 5,000 entrepreneurs.

RGMA believes that the 103d Congress has the unique opportunity to positively impact the growth of minority business development unlike any other Congress in history. Similar to the New Deal of the 1930's or the New Frontier of the 1960's, the 103d Congress has the opportunity to make a lasting mark in history with a bold minority business initiative that will transform minority businesses from an "issue" to a vital national resource. The ultimate objective of a Federal MBE strategy should be to mainstream MBE's into the overall mission of all government agencies, not just SBA and MBDA. By this, all products and services that contribute to the improved efficiency and quality of government operations should be provided by all forms of business enterprises, including minority-owned firms.

Our strategic vision for developing viable minority business enterprises is driven by the reality that a strong minority business community is essential to U.S. economic recovery and national security. Leading economists suggest that the prescription for curing the worldwide recession is increased productivity. There is no greater opportunity for increased utilization and productivity than in the minority business segments of our economy.

Defining the opportunity: Historically, most Federal minority business enterprise initiatives emphasize contracting and financing concerns, diverting needed attention from the importance of management and technical assistance. Yes, MBE's need access to capital, and yes, MBE's need to secure contracts. But to properly manage capital and to effectively perform on the contracts, MBE's need to establish solid business foundations based upon strong, competent management and a sound plan of action. The opportunity for MBE's to participate and contribute to the expansion of the economy will come only when MBE's master the time-tested tools of industry such as strategic planning, total quality management,

market research, cost accounting, automated information systems, human resource strategies, and capital budgeting, to name but a few.

Our proposed plan of action is steeped with reality. The following realities drive our recommendations for stimulating minority business development:

One, there are limited public sector dollars available to address all of the critical needs and concerns of MBE's.

Two, many Fortune 500 corporations have made a commitment to purchase increased goods and services from MBE's.

Three, the Croson decision has not had a significant negative impact on State and local programs that was once feared, thus other opportunities aside from the Federal sector do exist for MBE's.

Four, there is little interaction and joint initiatives between Federal agencies, including SBA, MBDA, and HUD.

Five, most Federal MBE initiatives focus on procurement, business planning or financing, thus leaving a void in other critical management and technical assistance areas.

Six, there are few initiatives that integrate the services available from local, State, private, and various Federal MBE programs.

Seven, with exception of SBA's 7(j) program and the MEGA Center from MBDA, most technical assistance programs have limited staffing capabilities and expertise and they are also focused toward smaller startup MBE's versus medium to larger MBE's.

Eight, most Federal MBE initiatives have little to no effective quality assurance or continuous improvement vehicles to ensure that MBE's are receiving quality services.

Nine, there are few Federal initiatives to prepare minority managers within corporate America for entrepreneurship before they take the plunge in starting their own business.

Based on those realities, we suggest that Congress consider the following MBE initiatives in reexamining and strengthening the Federal infrastructure for minority business development: Define a central point for coordinating and monitoring all Federal MBE contracting and technical assistance activities; within SBA, elevate the Office of Minority Small Business Capital Ownership Development from the Associate Administrator level to an Associate Deputy Administrator. Similarly at MBDA, there is a need to elevate the agency to Under Secretary status; provide district SBA offices with adequate staffing; work with the minority business community to incorporate an active MBE outreach mandate into every Federal agency; leverage all available local, State, and private MBE resources to address concerns of MBE's versus duplicating existing programs; develop a comprehensive three-tier strategy for growing MBE's at all levels; new and small community based firms, medium-sized firms with high-growth potential and larger emerging firms; build upon existing successful MBE initiatives on the State and local level; incorporate quality assurance and continuous improvement models in all Federal MBE programs; implement expanded Federal MBE management and technical assistance initiatives using the three-tier structure; and develop strategies to prepare minorities for business ownership before they enter the stage—before they start their businesses.

In summary, minority business will assume its proper role as a national resource when the mission of Federal MBE development initiatives is integrated into the overall mission of each government agency, and when we start measuring the success of minority development initiatives in terms of contribution to gross national product and national security, as well as contract and finance dollars. To accomplish this goal, MBE initiatives must go beyond procurement and financing programs and must incorporate all State, local, private, and Federal resources. Additionally, the focus on management and technical assistance must be retained as new, cost-effective methods for delivering quality services to each of the three tiers of minority firms under development. Strategic planning for the future should not be confined to the operations of businesses, but expanded to address the continuously changing needs of businesses that can be effectively addressed by the Federal Government.

We now have an opportunity to implement a significant change. We cannot afford to let this opportunity pass.

Again, my other comments are already recorded. You mentioned a comment on HUD, we have a contract working with HUD to increase the utilization of minority businesses throughout the country, and hopefully in the question and answer part of the hearing, we can talk about that. So I will turn it over to my friend, Hedy.

[The prepared statement of Mr. Moore follows:]

PREPARED STATEMENT BY RALPH G. MOORE
PRESIDENT, RALPH G. MOORE & ASSOCIATES

BEFORE THE SUBCOMMITTEE ON COMMERCE,
CONSUMER, AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
JULY 12, 1993

Mr. Chairman, and members of the Subcommittee, I am honored to appear before you to present this testimony.

My name is Ralph G. Moore and I am President of Ralph G. Moore & Associates, **RGMA**. **RGMA** is a multifaceted management and information systems consulting firm with offices in Chicago, IL, Herndon, VA and Milwaukee, WI. Founded in 1979 by Ralph G. Moore, the firm specializes in strategic planning, program evaluations, information systems and minority business development. **RGMA** has a staff of 60, and currently services a variety of minority business, corporate and government clients including: the U.S. Department of Housing and Urban Development (HUD), U.S. Department of Energy (DOE), U.S. Small Business Administration (SBA) and Baxter Healthcare Corporation. In addition, the firm has a key role in the Chicago MEGA Center; a pilot minority business initiative funded by the U.S. Department of Commerce, Minority Business Development Agency. Since our inception we have provided direct service to over 300 MBEs and delivered workshops and seminars to over 5,000 entrepreneurs.

NEED FOR A BOLD STATEMENT

RGMA believes that the 103rd Congress has the unique opportunity to positively impact the growth of minority business development unlike any other Congress in history. Similar to the New Deal of the 1930s or the New Frontier of the 1960s, the 103rd Congress has the opportunity to make a lasting mark in history with a bold minority business initiative that will transform minority businesses from an "issue" to a vital national resource. The ultimate

objective of a Federal MBE strategy should be to mainstream MBEs into the overall mission of all government agencies, not just SBA and MBDA. By this, all products and services that contribute to the improved efficiency and quality of government operations should be provided by all forms of business enterprises -minority-owned firms, inclusive.

RGMA's strategic vision for developing viable minority business enterprises is driven by the reality that a strong minority business community is essential to the U.S. economic recovery and national security. Leading economists suggest that the prescription for curing the world-wide recession is *increased productivity*. There is no greater opportunity for increased utilization and productivity than in the minority business segments of our economy.

DEFINING THE OPPORTUNITY

Historically, most Federal Minority Business Enterprise (MBE) initiatives emphasized contracting and financing concerns diverting needed attention from the importance of management and technical assistance. Yes, MBEs need access to capital and yes, MBEs need to secure contracts. But to properly manage capital and to effectively perform on the contracts, MBEs need to establish solid business foundations based upon strong, competent management and a sound plan of action. The opportunity for MBEs to participate and contribute to the expansion of the U.S. economy will come only when MBEs master the time-tested tools of industry such as strategic planning, total quality management, market research, cost accounting, automated information systems, human resource strategies, and capital budgeting, to name a few.

PROPOSED PLAN OF ACTION

Our proposed plan of action is steeped with reality. The following realities drive our recommendations for stimulating minority business development.

1. There are limited public sector dollars available to address all of the critical needs/concerns of MBEs;
2. Many Fortune 500 corporations have made a commitment to purchase increased goods and services from qualified MBEs;
3. The Croson Decision has not had the negative impact on state and local programs that was once feared, thus other opportunities aside from the Federal sector do exist for MBEs;
4. There is little interaction and joint initiatives between Federal agencies including SBA, MBDA and HUD;
5. Most Federal MBE initiatives focus on procurement, business planning and/or financing, thus leaving a void in other critical M&TA areas;
6. There are few initiatives that integrate the services available from local, state, private and the various Federal MBE programs;
7. With exception of SBA's 7(j) program and MBDA's MEGA Center, most technical assistance programs have limited staff capabilities and expertise. They also are focused toward smaller, start-up MBEs versus medium to large MBEs;
8. Most Federal MBE initiatives have little to no effective quality assurance or continuous improvement vehicles to insure that MBEs are receiving adequate services; and
9. There are few Federal initiatives to prepare minority managers within the corporate community for entrepreneurship before they take the plunge in starting their own business.

Based on the above realities, we suggest that Congress consider the following MBE initiatives in reexamining and strengthening the Federal infrastructure for minority business development:

1. Define a central point for coordinating and monitoring all Federal MBE contracting and technical assistance activities;
2. Elevate the Office of Minority Small Business Capital Ownership Development from the Associate Administrator level to the Associate Deputy Administrator;
3. Elevate the Minority Business Development Agency to Under Secretary status;
4. Provide District SBA offices with adequate staffing.
5. Work with the minority business community to incorporate an active MBE outreach mandate into every Federal agency;
6. Leverage all available local, state, and private MBE resources to address concerns of MBEs versus duplicating existing programs;
7. Develop a comprehensive, three-tier strategy for growing MBEs at all levels;
 - new and small community-based firms,
 - medium size firms with high growth potential,
 - and larger, emerging firms;
8. Build upon existing successful MBE initiatives on the state and local levels;
9. Incorporate quality assurance and continuous improvement models in all Federal MBE programs.
10. Implement expanded Federal MBE management and technical assistance initiatives using the three tier structure; and
11. Develop strategies to prepare minorities for business ownership.

1. DEVELOP THE MASTER MBE DEVELOPMENT STRATEGY

To effectively address the above objectives, it will be imperative that a "Master MBE Development Strategy" (The Strategy) be developed. Initiated at the Federal level, the process for strategy development will assess all factors both internal and external to the Federal government that may impact its success. The Strategy will coordinate all MBE activities within the various Federal agencies. In addition, this strategy will incorporate all local, state and private initiatives into a state by state strategy which will compliment the overall master strategy. The Strategy could also be the vehicle for introducing innovative MBE initiatives to agencies that in the past only had limited MBE procurement activity.

2. ELEVATE THE OFFICE OF MINORITY SMALL BUSINESS CAPITAL OWNERSHIP DEVELOPMENT (MSB-COD) WITHIN SBA

If minority business development initiatives remain within SBA we strongly urge the subcommittee to consider elevating the Office of Minority Small Business Capital Ownership Development from a Associate Administrator level to an Associate Deputy Administrator level. MSB-COD was created in 1968 as a response to the urban riots. Now, 25 years later, the world has changed. Minority business development has taken on a much greater significance in our country, but yet its posture within SBA remains at a low level. This elevation of status would send a clear signal outside as well as inside government that this Congress is serious about minority business development.

3. ELEVATE THE MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA)

If MBDA is to continue in its role as the Federal government's champion for minority business development, the Agency must be elevated to an Under Secretary status. In its current role, the power of the Agency is severely diminished. Just as SBA needs greater authority so does MBDA.

4. PROVIDE DISTRICT SBA OFFICES WITH ADEQUATE STAFFING.

On paper, SBA should provide the answers for 8(a) firms seeking contracts with the Federal government. In reality, SBA is a big question mark, mainly due to the lack of adequate staffing in many of the District offices. For example, the Chicago MSB-COD staff has one (1) Business Opportunity Specialist, one (1) Business Opportunity Assistant and one (1) contract negotiator to serve 128 8(a) firms, over 40 firms per staff member... an impossible task. This is twice the ratio stated in the Standard Operating procedures.

5. INCORPORATE AN ACTIVE MBE OUTREACH MANDATE INTO EVERY FEDERAL AGENCY

Any sustainable, long-term minority business initiative must include all Federal agencies, not just the "regulars"... SBA, HUD, NASA, DOD, DOE, DOT and MBDA. We are aware of the increased activity with GSA, the Postal Service and the Smithsonian which hopefully signals the start of a mass exodus of agencies implementing MBE initiatives. Each agency should be mandated to present their MBE procurement and MBE subcontractor plans when presenting their budgets to Congress.

6. LEVERAGE ALL AVAILABLE LOCAL, STATE, AND PRIVATE MBE RESOURCES.

A critical component of the Strategy is a national data base of all available state and local MBE initiatives. This data base would be essential as the Federal government crafts strategies to maximize the leverage of state and local resources. This data base would minimize the possibility of duplication of efforts and identify areas of need.

7. DEVELOPING MBEs TIERS

Although tiering of services is not a new concept, there is a need to tier all MBE initiatives to ensure that there is a customized approach to initiatives for each level of operation. This ensures that adequate resources are directed to management and technical assistance at all levels. We recommend three levels of tiering:

- Tier 1: Large MBEs. This is defined as firms having revenues in excess of \$1 million. There is also experience in doing business with corporations and governments. Firm goals are clearly diversified.
- Tier 2: Medium-sized MBEs. Defined as having revenues from \$250,000 to \$1 million. These firms have survived start-up, but are still struggling with key issues of business operations. Main goal is growth.
- Tier 3: Small MBEs. Start-ups to \$250,000. Employs less than 10 people. Ninety percent of MBEs are in this tier. Many basic issues need to be addressed. Survival is the main goal.

8. BUILD UPON SUCCESSFUL INITIATIVES

There are many successful initiatives that need to be fine tuned and incorporated into the Strategy rather than discarded. Some of the following are:

- * MBDA MEGA Center(s)
- * MBDA Business Development Centers
- * SBA 8(a) program
- * SBA 7(j) management and technical assistance program
- * SBA guaranteed loan program
- * HUD Enterprise zones (proposed)
- * HUD technical assistance program
- * Various agency MBE purchasing initiatives

A review of these programs must include incorporating the tiering recommendations mentioned above.

9. INTRODUCTION OF QUALITY ASSURANCE AND CONTINUOUS IMPROVEMENT MODELS

The quality of MBE initiatives must be measured not just in terms of procurement dollars of total financing, but also in terms of the quality of the services. TQM must be introduced to the agencies providing services to MBEs which will improve the overall quality.

10. INTRODUCE EXPANDED/ENHANCED MBE MANAGEMENT & TECHNICAL ASSISTANCE INITIATIVES

As part of MBDA's Chicago MEGA Center consulting team, we are participating in the first initiative by MBDA to service Tier 1 firms. The initial results have been impressive. Additional MEGA Centers as well as other programs that address the management and technical assistance needs of MBEs are needed.

11. PREPARE MINORITIES FOR BUSINESS OWNERSHIP

There is a need for programs to train potential minority entrepreneurs for business ownership. Currently this task is being addressed by a variety of avenues, but not all tiers are being addressed. The number of corporate trained minority managers that are being displaced by corporate restructuring has created a need for training of entrepreneurs for tier 1 type acquisitions.

There is also a need for increased youth entrepreneurship initiatives. HUD's Youth Entrepreneurship initiatives, Agriculture's 4H program as well as others initiatives need additional emphasis so the next generation of minority business owners can get an early start on learning the tools of business management.

SUMMARY

Minority businesses will assume its proper role as a national resource when the mission of Federal MBE development initiatives is integrated into the overall mission of each government agency; and when we start measuring the success of minority development initiatives in terms of contribution to gross national product and national security as well as contract and finance dollars. To accomplish this goal, MBE initiatives must go beyond procurement and financing programs and must incorporate all state, local, private and Federal resources. Additionally, the focus on management and technical assistance must be retained as new, cost effective methods for delivering quality services must be available for each of the three tiers of minority firms. Strategic planning for the future should not be confined to the operations of businesses, but expanded to address the continuously changing needs of businesses that can be effectively addressed by the Federal government.

As part of this strategic planning process, new relationships between the private and public sectors must be formed to transfer critical knowledge-based resources to improve Federal programs and other opportunities that may impact the future viability of minority-owned firms. It is a reality that without this form of partnership, the notion of "business as usual" will negatively impact the growth and development of minority owned firms in this country. We now have the opportunity to invoke change. We can not afford to let this opportunity pass.

Mr. SPRATT. Ms. Ratner.

**STATEMENT OF HEDY RATNER, DIRECTOR, WOMEN'S
BUSINESS DEVELOPMENT CENTER**

Ms. RATNER. Thank you for the opportunity to testify here today. I am testifying on behalf of women business owners. The Women's Business Development Center, which I am codirector of, is a Chicago-based nonprofit organization committed to the economic development and self-sufficiency of women and their families.

The center provides counseling, entrepreneurial training, support groups, networking, financial assistance and—as a priority—government and private sector certification and procurement opportunities for women business enterprises. The Women's Business Development Center is the only nongovernmental agency certifying women business enterprises in the Nation.

Acknowledging that women business owners are underrecognized in the marketplace as viable vendors and suppliers, the Women's Business Development Center works closely with the private sector and Federal, State, and municipal agencies as: An advocate for affirmative action in employment and contracting, a resource and advisor providing assistance in identifying and certifying WBE suppliers and vendors, and as a trainer and consultant in the area of WBE contracts, subcontracts, and procurement.

The WBDC has been funded since 1988 as a national demonstration project selected by the U.S. SBA, Office of Women's Business Ownership to provide business assistance to women starting and developing their businesses in Illinois, Indiana, Ohio, and Florida.

In the past 7 years, the WBDC has served over 20,000 prospectives and established business owners and has successful programs in Rockford, Kankakee, and Joliet—

Mr. SPRATT. Ms. Ratner, I think maybe something is on the microphone's electrical cord that is causing that background hum; I am not sure what it is. Why do you not suspend for just a minute.

[Pause.]

Ms. RATNER. It is still buzzing.

Mr. SPRATT. Go ahead. I am sorry to interrupt you.

Ms. RATNER. Quite all right.

In Rockford, Kankakee, and Joliet, IL; Indianapolis, IN; and eight cities in Ohio including Cincinnati, Cleveland, Akron, Yellow Springs, Columbus, and Athens; and beginning this year, Miami, FL where the programs will serve Hispanic women, women business owners who were victims of the recent hurricanes and older women.

We commend the Subcommittee on Commerce, Consumer, and Monetary Affairs for its willingness to recognize, research, and investigate the issues facing minority and women-owned small business. Mr. McSpadden was kind enough to provide the testimonies of the representatives of Veterans' Affairs, SBA, HUD, and GSA for me to comment on, and I will at the conclusion of my testimony.

The Women's Business Development Center is also a founding member of two organizations that I think are key and I think unique to this region, the Alliance for Economic Development, which is a coalition of women's economic development organizations to bring about economic parity in Illinois; and also the Alli-

ance of Minority and Female Contractors Associations. What makes us unique, I believe, are some of the issues that have occurred in other areas of the country, hostility and competition between minorities and women being resolved on an ongoing basis with the development and facilitation of these alliances that have existed for the past 5 years, so that minorities and women can work together to look at the various programs and services provided by the Federal Government and the private sector, and provide a better share of the pie to minorities and women rather than fighting over small leftover pieces.

We make the following proposals for change based on our organization's experience and our work in coalitions:

I think this is a major issue and I think it was also addressed earlier by one of the other participants. We propose a major change in the Department of Transportation, splitting up the DBE category into WBE and MBE categories with at least a minimum 7 percent goal within each.

We propose an overhaul of the Federal procurement process, including privatizing the certification procedure.

We suggest actions that will increase access to capital for women business owners.

And we present a set of advocacy initiatives which will provide increased business to minority and women business enterprises, those groups who historically have not had these opportunities and who historically experience discrimination.

On the issue of the reconfiguration of the DBE goals in the Department of Transportation: I do not know why I did not ask this question earlier; but I asked, while I was listening to the testimony, how many of the members of the Black Contractors United, Women Construction Owners & Executives, and the Chicago Urban League are in fact road builders involved in highway construction. I was shocked to learn that among all of those major organizations—and those are the organizations where most of the membership occurs in the Chicago area—there are very few women and minorities. And the reason for that I think is something that was addressed earlier.

The contracts that have been awarded under the DBE category are very large capacity contracts. There are very few minorities and women that can take advantage of those procurement opportunities. The firms are not large enough, they do not have the capacity, they cannot get the bonding, and they do not have the cash-flow basis and strength to be able to take advantage of those opportunities.

It is a major issue. What needs to be done is breaking up the goals and breaking out the contracts so that we can take advantage of those opportunities. We make a big deal about inequities and abuses in the Surface Transportation Act, spent a lot of time talking about it, and in fact, we cannot take advantage of it. That is a major issue.

The purpose of the set-aside programs is to assist in the economic development of the presumptively disadvantaged small businesses, to guarantee them fair opportunities to compete, and to assist in bringing women and minority business owners into the American economic mainstream.

The new Surface Transportation Act and the way that program is implemented does not provide those opportunities. Placing women and minorities into that category makes it impossible to track the progress and growth of either group and pits minorities and women against one another, a circumstance to be avoided at all cost.

One of the issues that we address is the recommendation to repeal the amendment, I believe that is the 1987 Surface Transportation Act amendment, and revert back to a two-goal system setting minority participation goal at not less than 7 percent and female participation at not less than 7 percent.

We believe that for adequate outreach and development, there should be consideration of inclusion of representatives of minority and women's business community in the planning, implementation, and monitoring of set-aside and sheltered market programs in the Department of Transportation.

On the surety bonding issue that was mentioned, I wanted to comment on Mr. Williams' testimony that in the breaking up of the transportation contracts that government bond guarantees are difficult to access for contractors in this region. I do not know of any women construction company owners that have been able to take advantage of the government bonding, therefore, that is a major issue.

In terms of Mr. Williams' testimony on surety bonding—and I think it was made very clear in the last panel—there are no equivalent programs for women business owners in construction, to provide the technical, management, and bonding assistance. That is necessary and I will elaborate on that in my testimony.

I have a recommendation for increasing Federal procurement for women-owned businesses. Women face an unequal playing field. That is an embarrassment in that women receive only 1.3 percent of Federal contracting in this country right now, 1.3 percent. By the end of this century, women business owners will own over half of the small business that exist.

We propose an increase in federally mandated set-asides and an increase in the allocation for women and minority business in all Federal contracting.

Within the present Federal certification system, there are unfortunate abuses. The beginning of our coalition, the Alliance of Minority and Female Contractors, came at the time of the Dan Ryan expressway renovation. What was determined at that point is that there were no minority contractors on that project and there were no legitimate certified women business enterprises on that project. The ones that were awarded contracts, the white women contractors, were fronts. We discovered the abuses. We determined that instead of the women and minorities battling and competing over contracts, we got together and said these abuses must end.

The Women's Business Development Center and other organizations are concerned about the abuse of the goals and guidelines and implementations of these business opportunities. While some government agencies have imposed stringent regulations and certification requirements, we support even more stringent certification, creating a universal standard for certification, privatizing the certification process, and preaward and postaward monitoring to ame-

liorate the abuses. Centralization of the Federal procurement process is an option, but certainly the centralization, as Mr. Moore mentioned, of the monitoring, compliance, and enforcement is essential.

Further, we encourage more Federal support for capacity building programs. We also agree with Mr. Moore, as we always do, on capacity building programs which will accelerate the growth and impact of women and minority-owned businesses, enabling them to take on the bigger contracts. The MEGA Center of the MDBA, Department of Commerce, is a wonderful program, it is a pilot program, it has shown its successful possibilities. There is no such program available for women business owners.

Representatives of the minority and women's business community should be included in the planning, implementation, and monitoring of set-aside and sheltered market programs in all Federal departments and agencies.

The following are recommendations for increasing procurement opportunities and access for women-owned businesses:

Uniform goals across Federal agencies; 5-percent MBE and 5-percent WBE prime and subcontracting. And for the smaller agencies, combined 5-percent prime and subcontracting goals.

Establishing uniform and preemptive certification standards, and the utilization of recognized, credible private sector assistance in certification of minority and female business enterprises such as in Chicago, the Chicago Regional Purchasing Council and other such councils affiliated with the National Minority Vendors Council and organizations such as the Women's Business Development Center that has implemented stringent certification guidelines.

Certification of WBE's—in order to assure legitimacy of women business owners doing Federal business, there eventually needs to be a uniform and universally accepted Federal certification code for WBE's preceded by acceptance of and reciprocity of all recognized WBE certification programs. We are not suggesting that the Federal Government get into the business of certification of all of their contractors. We are saying that there are legitimate, credible certification programs nationwide that should be utilized and accepted, but that a self-certification program is unacceptable.

I mentioned the breakout of larger contracts such as in the Department of Transportation. I think that that needs to be reviewed, it needs to be assessed. SBA has the authority to look at all prime contracts for breakout, not just Transportation, but others as well.

Set-asides: Mandatory 5-percent MBE and 5-percent WBE or 10-percent small and disadvantaged businesses, including women, set-aside for all Federal contract dollars.

Enforcement and women's business representatives staff at each agency.

Performance requirement: Maybe one of the ways to encourage the implementation of this is that small and disadvantaged business utilization specialists and others with similar responsibilities should have included in their performance reviews an evaluation based on the use of women and minority-owned businesses.

Waivers may be approved only where good faith efforts are documented.

Increase the minimum small purchase threshold from \$25,000 to \$50,000 with monitoring and reporting requirements indicating M/WBE's awarded contracts.

An outreach to M/WBE's to assure their inclusion on the Federal supply schedule, separate from other Federal procurement.

Another issue that has been a major concern is, there does not seem to be a standard definition of women business owners. We would suggest that there be a standardized definition for Federal Government usage. We agree with the National Women's Business Council definition that a woman-owned business is a business concern with at least 51-percent unconditional ownership and control by a woman or women. Such unconditional ownership must be reflected in the concern's ownership agreement and the woman or women must manage and operate the business on a daily basis. The concerns we as women business owners have with the usage of front organizations is probably even more serious than it is for minority business owners. Our credibility is at stake, we want to be sure that the legitimate, credible businesses are receiving the contracts.

Establishing across-the-board uniform participation goals for minorities and women in the Federal procurement process with annual reporting from each Federal agency about its procurement spending with minorities and women by type of business, size of contract, total dollars spent, outreach initiatives, and business development initiatives by race and sex.

Continuation of government research and information such as that collected by the National Women's Business Council on Federal procurement and access to credit.

And pursuit and elimination of fraud in the certification process with an enforcement mechanism and procedure to eliminate fronts and to penalize those individuals who have established such front companies.

I wanted to comment on—Mr. McSpadden gave me a lot of homework to do this morning, so I am trying to pull it all together—the GSA statement of Mr. Kalscheur, the 8(a) process. I do have some comments.

Currently, though the 8(a) is established to serve economically and socially disadvantaged individuals, it is predominantly a minority program. I understand that in terms of staff resources, it is very difficult to expand that program, but it seems if we are talking about economically and socially disadvantaged individuals, that the definition must be a uniform definition and women need to be included in that 8(a) process. If not as part of the 8(a) program, certainly an equivalent program that provides the access to those opportunities not now currently available.

In Mr. Kalscheur's testimony—we mentioned the need for an equivalent program, not bending the rules to fit women into 8(a) but to have an access to programs for women to provide new opportunities—he mentioned small business set-asides. Again the same thing, to defuse the issue of competition between minorities and women, we need to broaden the definition or provide a separate program.

In 7(j), there is—and Mr. Moore is a contractor on the 7(j) program—no equivalent 7(j) program for women business enterprises.

We would like to propose that under the Office of Women's Business Ownership in the SBA that there be an equivalent 7(j) program for women business enterprises.

Under Executive Order 12138, Federal agencies must take affirmative action in support of businesses owned by women and make a special effort to advise them of business opportunities. I do not believe that that is currently being adequately done through outreach programs. There was in Mr. Denniston's testimony a number of major outreach conferences in this region. We are the largest provider of business assistance to women business owners in the United States, and I did not know about these outreach conferences. So if they are going to be doing outreach, they need to do the outreach to the various technical assistance programs that can provide access to the women business owners that could take advantage of the procurement programs.

Increasing access to capital for women: We would like to propose that the small loan program provided by the U.S. SBA be better implemented. That program was just established about 2 years ago to bridge the gap of providing bank loans under \$50,000 to women and minority small businesses with insufficient collateral. That has not been a well-implemented program, banks do not see it as an opportunity for them to make money, and it is an administratively costly program to implement. The SBA under \$50,000 loan program has been very difficult to access.

In Chicago, we at the WBDC bridge the gap of providing bank loans of under \$50,000 to women with insufficient collateral by developing a collateral pool program. We have obtained loans from foundations to capitalize our collateral pool and then we can pledge part of that to the banks.

Since the SBA has financed intermediaries in their micro loan program, we encourage the SBA to consider lending to intermediaries to develop a collateral pool program that would serve the market that the small loan program is supposed to serve. Banks prefer our collateral pool program to the small loan program because we can assist the client and the banks undertaking the due diligence, minimizing the paperwork and administrative burden for the banks.

Just recently a major change occurred in bank policy under this administration that can have a major impact on access to capital for small business. And that is from the four regulators, there was a provision for banks with CAMEL ratings of 1 and 2 to set-aside up to 20 percent of their loan portfolios for small and medium-sized businesses that will not be scrutinized by Federal regulators in their safety and soundness reviews. This means that banks have the ability to apply different underwriting criteria to this unregulated portion of their portfolio. Right now, few bank auditors know about it, they are not aware of the change in policy and they are too nervous to really utilize it.

The SBA could be very instrumental in facilitating discussions and developing methodology and criteria and providing the incentives, as was discussed earlier, to encourage banks to maximize the impact of this policy on increasing access to capital for small minority and women-owned businesses in general.

Equity investment is the other issue that is major. Many women and minorities need small amounts of equity or subordinated debt in order to leverage bank loans. We would suggest, in order to further this type of financing, that we provide for tax legislation that will encourage individuals to invest in socially responsible causes and/or small businesses. Educate both investors and small business on how to structure equity/subordinated debt deals that benefit both the business and the investor. We find that many people do not enter into such partnerships because they do not know what to do nor what to ask for. There are some tax incentives that could be provided that could provide additional incentives.

We recommend that the Federal Government increase its minority and female business development initiatives to help with access to capital and credit opportunities through the public and private sector.

I have a few new initiatives and then I will be ready for questions.

Because there is now, under the MBDA program, no equivalent program for women, we propose that the Office of Women's Business Ownership of the U.S. SBA be elevated to an agency-type level in terms of reporting and responsibility to the SBA Administrator, so that this agency has an equivalent status to the MBDA. Within the SBA, the Office of Women Business Ownership itself have an equivalent status to procurement and finance division with the Director of the OWBO holding the level of Associate Deputy Administrator or Women's Economic Development or some such title. I am not real good at titles. The issue is policymaking, impact, and funding.

There should be facilitated a task force on access to capital.

An equivalent SBA 7(j) type technical assistance program for women's business owners should be initiated as a line item in the annual budget to be monitored by the Office of Women's Business Ownership.

There should be a chief counsel for advocacy as an advocate for small business, with commitment to minority and women's business ownership issues under the SBA. There used to be that title, there is not currently.

Reestablish an interagency committee on women's business enterprise by Executive order—there was one under President Carter—to help establish national policy supporting women's business ownership issues. The interagency committee would report to the President on procurement issues and other issues such as financial assistance and technical assistance.

Establish a technical assistance program for women's business development: A demonstration program such as ours should be developed in every State to offer financial, management and technical assistance, procurement, certification, and financing programs to develop and expand women-owned businesses.

The MEGA Center issue, I have already discussed.

It is essential to provide the needed business assistance for emerging and expanding women-owned businesses. Though we will be half of the small businesses in the country by the end of the century, the revenue generated by those firms is much less than other

small businesses, less than minority-owned businesses, and about the equivalent as Hispanic-owned businesses.

I would like to just comment on a couple of the testimonies, if I may. In region 5 with the GSA testimony, some very excellent recommendations were made on the participation of minority and women business enterprises. What we would like to see is more participation by the various groups of minority and women's business enterprises. The PASS system, which is simply a listing, is not well utilized by the Federal agencies. PASS should become a more accessible, better utilized directory. Although GSA procurement conferences are being held, they are still doing business as usual. The goals have been much better utilized I believe in this region than by many others. The goals for women-owned businesses in 1993 were 10 percent and the achievement was 7.5 percent in this region—much better than the 1.3 percent in the Federal statistics.

A reduction from \$3 million to \$500,000 as a competitive threshold for construction contracts—I absolutely agree that that would be good. It was mentioned in previous testimony.

Restructure the 8(a) program, include women owned or establish an equivalent program for women and with increased goals.

I mentioned the increase to \$50,000 as the bottom range of the programs.

And under the U.S. Department of Veteran Affairs, we would like to commend the agency for awards to women-owned businesses that have increased 22 percent. One of the indications was there needs to be a wake-up call to all of the staff of the various agencies, a directive to key officials regarding their personal commitment and the commitment of the President to increase procurement opportunities for minority and women must be done—not verbiage but reality. And again, I mentioned performance reviews based on accomplishments in this area.

One of the approaches was to educate Federal contracting officers regarding their responsibilities. I think education and training are required, especially if there is going to be a real commitment to this issue.

I think that is it. Thank you.

Mr. SPRATT. Thank you very much, Ms. Ratner.

[The prepared statement of Ms. Ratner follows.]



WOMEN'S BUSINESS
DEVELOPMENT CENTER

SOLUTIONS TO THE DILEMMAS FACED BY WOMEN AND MINORITY
BUSINESS OWNERS

before the

Subcommittee on Commerce, Consumer and Monetary Affairs
of the

U. S. House of Representatives Committee on Government Operations
July 12, 1993
Chicago, Illinois

Testimony Presented by
Hedy M. Ratner, Director
Women's Business Development Center

I am testifying on behalf of women business owners.

OVERVIEW OF THE WOMEN'S BUSINESS DEVELOPMENT CENTER

The Women's Business Development Center is a Chicago-based non-profit organization committed to the economic development and self-sufficiency of women and their families.

The Center provides counseling, entrepreneurial training, support groups, networking, financial assistance and--as a priority--government and private sector certification and procurement opportunities for women business enterprises. The Women's Business Development Center is the ONLY non-governmental agency certifying women business enterprises in the nation.

Acknowledging that women business owners are underrecognized in the marketplace as viable vendors and suppliers, the Women's Business Development Center works closely with the private sector and federal, state and municipal agencies as:

- 1) an advocate for affirmative action in employment and contracting,
- 2) a resource and advisor providing assistance in identifying and certifying WBE suppliers and vendors,
- 3) as a trainer and consultant in the area of WBE contracts, subcontracts and procurement.

CAROL DOUGAL, DIRECTOR · HEDY RATNER, DIRECTOR

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THE NATIONAL IMPACT OF THE WBDC

The WBDC has been funded since 1989 as a national demonstration project selected by the U. S. SBA, Office of Women's Business Ownership to provide business assistance to women starting and developing their businesses in Illinois, Indiana, Ohio and Florida.

In the past seven years, the WBDC has served over 20,000 prospective and established business owners and has successful programs in Rockford, Kankakee and Joliet, Illinois; Indianapolis, Indiana; eight cities in Ohio including Cincinnati, Cleveland, Akron, Yellow Springs, Columbus and Athens; and, beginning this year, Miami, Florida where the programs will serve Hispanic women, women business owners who were victims of the recent hurricanes and older women.

RESPONDING TO THE NEEDS OF WOMEN BUSINESS OWNERS:
SUGGESTED GOVERNMENTAL CHANGES

We commend the Subcommittee on Commerce, Consumer and Monetary Affairs for its willingness to recognize, research and investigate the issues facing minority and women-owned small businesses.

The Women's Business Development Center is a founding member of the Alliance for Economic Development, a coalition of women's economic development organizations established to bring about economic parity in Illinois. Membership includes Women Construction Owners and Executives, National Association of Women Business Owners/Chicago, and the Women's Bar Association of Illinois.

The Women's Business Development Center, its coalition partners, and the thousands of women business owners with whom we work have several recommendations for this committee.

We make the following proposals for change based on organizational experience and our work in coalitions.

1) We first propose a major change in the Department of Transportation: splitting up the DBE category into WBE and MBE categories, with at least 7% goals within each;

2) We propose an overhaul of the federal procurement process, including privatizing the certification procedure;

3) We suggest actions which will increase access to capital for women business owners;

4) We present a set of advocacy initiatives which will provide increased business to minority and women business enterprises, those groups who historically have not had these opportunities and who historically have been discriminated against. Each has special problems. Both presumptive groups need special attention.

1. RECOMMENDED CHANGES IN THE DEPARTMENT OF TRANSPORTATION'S DBE PROGRAM

We encourage the reconfiguration of the Disadvantaged Business Enterprise/Women Business Enterprise/Minority Business Enterprise program into separated categories of MBE and WBE.

The purpose of minority and female setaside programs and affirmative action contracting goals is to:

- 1) assist in the economic development of the presumptively disadvantaged small businesses;
- 2) guarantee them fair opportunities to compete; and
- 3) assist in bringing women and minority owned businesses into the American economic mainstream.

Placing women and minorities into the DBE category makes it impossible to track the progress and growth of either group and pits minorities and women against one another, a circumstance to be avoided at all costs.

Because of historical discrimination and lack of business enterprise opportunities, we propose that percentage goals for minorities and women be increased and placed in separate categories.

Coalition Supporting these Recommended Changes

The Women's Business Development Center is a founding member of the Alliance, a coalition of minority and female contractor associations including Hispanic American Construction Industry Association, Black Contractors United, Federation of Women Contractors, Midwest Contractors for Progress, and Women Construction Owners and Executives.

The Alliance has as its mission the equitable distribution of construction related contracts and subcontracts among presumptive groups--minorities and women--and the monitoring of the government and private sector contracting goals, guidelines and programs so that we can all work together to further the economic development goals of minorities and women.

The Alliance and its members urge the reinstatement of the two goal system--a goal for minorities and a goal for women--and more equitable distribution of a greater percentage of contracts between minority and women business enterprises.

Legislative Information

In 1987 the Surface Transportation Act amendment placed minorities and women into one category--disadvantaged business enterprises--forcing minorities and women to share in the same 10% setaside program in the federally funded transportation programs.

The 1987 amendment allows that the prime contractor may seek just one subcontractor per project. Consequently, prime contractor seek just that one subcontractor, often awarding the same subcontractor major projects, and not going beyond this subcontractor to open up the marketplace. These actions effectively undermine the intent of the amendment.

Unfortunately, because of the size of the highway and transportation contracts and the potential profits of these major contracts, too many majority businesses are creating front companies to take advantage of the opportunities to bid on large projects under sheltered markets. Further the lack of strict scrutiny in the certification in some states enables "front" firms to continue this practice. Contracts awarded to front companies have prevented legitimate minority and female owned firms from competing and winning these contracts, and have therefore defeated the purpose of the program: the development of small minority and female owned businesses.

Combined goals and the subsequent inequitable distribution of contracts has caused the loss of substantial contract dollars to legitimate minority and female owned contractors, and has jeopardized the carefully developed coalitions between minority and women entrepreneurs. According to Ralph Thomas, Executive Director of the National Association of Minority Contractors, "neither women nor minorities need any new enemies, least of all each other."

Recommendations:

- o Repeal amendment and revert back to two goal system setting minority participation goal at not less than 7% and female participation at not less than 7%.

- o Inclusion of representatives of minority and women's business community in the planning, implementation and monitoring of setaside and sheltered market programs in the Department of Transportation.

2. INCREASE FEDERAL PROCUREMENT FOR WOMEN-OWNED BUSINESSES

Women face an "unequal playing field" in government procurement. 1.3% federal contracting to women business owners is embarrassing!!

We propose an increase in federally mandated setasides and an increase in the allocation for women and minority business in ALL FEDERAL CONTRACTING.

The fastest growing segment of the economy in the United States today is women-owned businesses. By the year 2000, 50% of all businesses in this country will be women-owned. In Illinois alone there are 250,000 women owned businesses, most in the metropolitan Chicago area.

Within the present federal certification system, there are unfortunate abuses. The Women's Business Development Center and other organizations and coalitions of women and minorities are concerned about abuse of the goals and guidelines and implementation of these business opportunities.

While some government agencies have imposed stringent regulations and certification requirements, we support even more stringent certification requirements, creating a universal standard for certification, privatizing the certification process, and pre-award and post-award monitoring to ameliorate abuses.

Further, we encourage more federal support for capacity-building programs which will accelerate the growth and impact of women and minority owned businesses, enabling them to take on the bigger contracts.

Representatives of the minority and women's business community should be included in the planning, implementation and monitoring of setaside and sheltered market programs in all federal departments and agencies.

The following are recommendations for increasing procurement opportunities and access for women-owned businesses:

- o UNIFORM GOALS across federal agencies
5% MBE and 5% WBE for prime and subcontracting.
For smaller agencies, combined 5% prime and subcontracting goals
- o Establishing uniform and preemptive certification standards, and the utilization of recognized, credible private sector assistance in certification of minority and female business enterprises such as the regional Chicago Regional Purchasing Council and other such councils affiliated with the National Minority Vendors Council and organizations such as the Women's Business Development Center that has implemented stringent certification guidelines

- o CERTIFICATION OF WBE'S - in order to assure legitimacy of women business owners doing federal business, there eventually needs to be a uniform and universally accepted federal certification code for WBE's preceded by acceptance of and reciprocity of all recognized WBE certification programs.
- o Certification of WBE's be done by private sector agencies which are trained and monitored to uniform and universally accepted certification standards.
- o Improvement in monitoring of contractors and subcontractors including on site verification
- o Breakout of larger contracts - review breakout. SBA has the authority to look at all prime subcontracts for breakout.
- o SETASIDES - mandatory 5% MBE and 5% WBE OR 10% Small and Disadvantaged Businesses (including women) setaside of all federal contract dollars.
- o ENFORCEMENT AND WOMEN'S BUSINESS REPRESENTATIVES staff at each agency.
- o PERFORMANCE REQUIREMENT - Small and Disadvantaged Business Utilization Specialists and others with similar responsibilities should have included in their performance review an evaluation based on the use of women-owned businesses.
- o WAIVER MAY be approved only where good faith efforts are documented.
- c Increase minimum small purchase threshold from \$25,000 to \$50,000 WITH MONITORING AND REPORTING REQUIREMENTS indicating M/WBE's awarded contracts.
- o Outreach to M/WBE's to assure their inclusion on the FEDERAL SUPPLY SCHEDULE, separate from other federal procurement.
- o CREATE a STANDARDIZED DEFINITION OF WOMEN-OWNED BUSINESS
There is currently no standard definition of "woman owned" business for federal government usage. We agree with the National Women's Business Council definition: "A woman-owned business is a business concern with at least 51 percent unconditional ownership and control by a woman or women. Such unconditional ownership must be reflected in the concern's ownership agreement; and the woman, or women must manage and operate the business on a daily

basis.

- o Establishing across the board uniform participation goals for minorities and women in the federal procurement process with annual reporting from each federal agency about its procurement spending with minorities and women by type of business and size of contract, total dollars spent, outreach initiatives and business development initiatives by race and sex.
- o Continuation of government research and information such as that collected by the newly formed National Women's Business Council on federal procurement, access to credit for minorities and women
- o Pursuit and elimination of fraud in the certification process with an enforcement mechanism and procedure to eliminate fronts and to penalize those individuals who have established such front companies.
women.

3. INCREASE ACCESS TO CAPITAL FOR WOMEN

a) Small Loan Program at U.S. Small Business Administration

With regard to the 'Small Loan Program' we still see little activity with this program in the Chicago area, primarily because the banks still see that the 'paperwork' and due diligence disproportionate to the amount of the loan.

In Chicago, at the WBDC, we have bridged this gap of providing bank loans of under \$50,000 to women with insufficient collateral by developing a 'collateral pool' program. We have obtained loans from foundations that capitalize a collateral pool. We then can pledge part of the collateral pool to secure part of a bank loan for a woman business owner who does not have sufficient collateral to obtain the necessary financing.

Since the SBA has financed 'intermediaries' in the Micro-Loan Program through loans, we encourage the SBA to consider lending to intermediaries to develop a collateral pool program that would serve the market the Small Loan Program is supposed to serve. Banks prefer our collateral pool program to the Small Loan Program because we the intermediary agency can assist the client, undertake the due diligence, and minimize the paperwork and administrative burden for the banks.

b) Improving Access to Capital For Women

Just recently a major change has occurred in bank policy that could have a major impact on the access to capital for small business. In a recent memo from all four regulators there is provision for banks with CAMEL ratings of 1 and 2 to set aside up to 20% of their loan portfolios for small and medium-sized businesses that will not be scrutinized by federal regulators. This means that banks have the ability to apply different underwriting criteria to this un-regulated portion of their portfolio.

From our understanding few bank officers are aware of this change in policy nor do they understand the implications for lending to small business. The SBA could be very instrumental in facilitating discussions and developing a methodology/criteria to encourage banks to maximize the impact of this policy on increasing access to capital for women and small business in general. Recently, the WBDC organized a 'Meet Your Lenders' workshop that included women business owners, banks, AND the regulators. This workshop begins the process we advocate.

c) Equity Investment

We have found over the years that many women need small amounts of 'equity' or subordinated debt in order to leverage bank loans. We are currently working on a case where the banks have committed \$40,000 if we can arrange another \$20,000 in equity financing. We are currently pairing individual investors with companies and working with alternative financing organizations in order to develop "equity/debt" partnerships. In order to further this type of financing we recommend the following:

- o provide for tax legislation that will encourage individuals to invest in 'socially responsible' causes, and/or in small business.
- o educate both investors and small business on how to structure equity/subordinated debt deals that benefit both the business and the investor. We find that many people do not enter in such partnerships because they do not know what to do nor what to ask for.

d) We recommend that the federal government increase its minority and female business development initiatives to help with access to capital and credit opportunities through the public and private sector.

4. RECOMMENDED ADVOCACY INITIATIVES

-- NEW INITIATIVES

- o We propose that the Office of Women's Business Ownership of the U.S. SBA be elevated to an "agency" type level in terms of reporting and responsibility to the SBA Administrator so that this agency has an equivalent status to the Minority Business Development Agency in the U. S. Department of Commerce. That within SBA, the OWBO have an equivalent status to procurement and finance division with the Director of the OWBO holding the level of Associate Deputy Administrator for Women's Economic Development, or some such title. The issue is policy-making, impact, funding, etc.
- o Facilitate a Task Force on Access to Capital
- o Establish an equivalent SBA 7J type technical assistance program for women's business owners as a line item in annual budget to be monitored by Office of Women's Business Ownership.
- o Appoint a Chief Counsel for Advocacy as an advocate for small business, with commitment to minority and women's business ownership issues.
- o Reestablish the Interagency Committee on Women's Business Enterprise by Executive Order to help establish national policy supporting women's business ownership issues. The Interagency Committee would report to the President on procurement issues and other issues such as financial assistance and technical assistance.
- o Initiate a national study of the economic and social impact of women-owned businesses, perhaps within a job creation initiative
- o Establish a Demonstration Program for Women's Business Assistance in each state offering financial, management, and technical assistance, procurement, certification and financing programs to developing and expanding women owned businesses. New funding at a reasonable level is necessary.
- o The MEGACENTER, pilot program of the MBDA of the U.S. Department of Commerce in Chicago, was awarded \$2 million for minority business assistance. Only \$1.2 million is awarded NATIONALLY for women's business assistance for 1993. The Demonstration Projects for Women's Business Assistance of the OWBO of the U.S. SBA need an infusion of new funds to expand the concept

- nationwide to provide much needed business assistance for emerging and expanding women-owned businesses.
- o Continue the temporary reauthorization of the National Women's Business Council. It's now in the final year of a 5-year mandate and major reasons exist for extending its life at least an additional year:
 - 1. To examine and address solutions to procurement barriers to women owned businesses at all levels
 - 2. To examine and address barriers and solutions to access to capital for women business owners;
 - 3. To conduct additional research on women's business ownership
 - 4. To implement a National Women's Economic Summit
 - 5. To conduct regional hearings by NWBC and Federal Reserve Board on Access to Capital--debt and equity--for women.

CONCLUSION

Thank for the opportunity to present this testimony to you on behalf of women in business.

Hedy M. Ratner
Co-Director, Women's Business Development Center
Respectfully submitted
Monday, July 12, 1993

Mr. SPRATT. Ms. Davenport.

STATEMENT OF DORIS DAVENPORT, DISTRICT MANAGER, MARKETING AND PUBLIC RELATIONS, MINORITY ENTERPRISE GROWTH ASSISTANCE [MEGA] CENTER, ON BEHALF OF GEORGE HERRERA, PRESIDENT, DAVID J. BURGOS & ASSOCIATES, INC., ACCOMPANIED BY BRIAN LaPERRIERE, VICE PRESIDENT

Ms. DAVENPORT. Mr. Chairman, Congressman Rush, and members of the subcommittee, I am pleased to submit the oral testimony of George Herrera, president of David J. Burgos & Associates, Inc. At this time, I would like to recognize the vice president of the MEGA Center, Brian LaPerriere, and ask him to join me at the table.

Mr. RUSH. Would you repeat his name please?

Ms. DAVENPORT. I beg your pardon?

Mr. RUSH. Would you repeat his name?

Ms. DAVENPORT. Brian LaPerriere.

Our organization, David J. Burgos & Associates, Inc., hereafter referred to as Burgos, has established an exemplary reputation for developing and implementing innovative market-driven, customer focused business development services to small and minority businesses, governmental agencies, corporations, and economic development organizations.

Since our inception as a minority business development agency contractor, Burgos has generated over \$163.13 millions in loans to 902 clients. In addition, our procurement development services have resulted in 822 clients securing more than \$134.47 million in procurement contracts. This effort to date has resulted in the establishment of over 3,500 new jobs.

Mr. Chairman, Burgos' reputation as a pioneer in the field of minority business development is evidenced via the award in 1992 of the largest single contract in the Federal Government history to assist minority business enterprises. The U.S. Department of Commerce Minority Business Development Agency awarded Burgos a \$2.5 million contract to serve as prime contractor for the center located in metropolitan Chicago, IL. The MEGA Center is funded through a \$1.8 million Federal cooperative agreement and \$700,000 in private sector funds.

In order to constructively evaluate and assess minority business programs of the Federal Government, it is important that we first take a look at the problems that minority entrepreneurs have historically faced in America today. Minorities have historically been excluded from business ownership opportunities. They have not been permitted to learn what happens in the management and operation of competitiveness. Consequently, they have not developed management skills. There was no basis for their inclusion in social activities that would permit them to develop personal and professional relationships with business owners and managers. They were naturally restricted socially to their own peer groups on the basis of knowledge, but the natural peer group restraints in themselves account for social and professional isolation. The result of exclusion is the inability to compete effectively.

Minorities have few opportunities to develop business skills and it is entirely normal and natural that a disproportionately small percentage have business knowledge and experience at competitive levels and successful track records in business or personal contacts at policy decisionmaking levels of business. Prejudicial attitudes have caused continued exclusion and militates against equitable responses based on individual merit. Similar attitudes are developed about people individually and as groups; consequently, negative attitudes about minority business people are perfectly normal and predictable.

Minorities have been restricted to neighborhoods where education and income are relatively low. Their income could not support first class establishments of any kind. The levels of business activity were too low to support modern furnishings and first class service. Businesses frequently existed solely on the basis of convenience and the store and services were definitely inferior.

Under these conditions, minority business people could not develop the attitudes or skills that characterize owners of thriving businesses in viable communities. When the barriers were dropped and minorities were free to shop for services in the general business community, it became profitable for majority firms to exploit minority markets. Minority business people were unable to exercise skills or prior resources needed to build competitive businesses. Whole communities suffered from the usurping of minority business communities by stronger, more sophisticated businessmen. The result was similar to that experienced by the virtually defenseless Ethiopians when they were invaded by the Italians with their sophisticated machines of war. Minority business people were unable to protect themselves because they had no opportunity to arm themselves or train for the onslaught.

In America today, there are still strong, prevailing attitudes that all minorities are poor business risks and that all minority businesses are inferior. Minorities do not trust our economic system or those who control it. They do not understand the rules or the standards that must be met to qualify for entry or to continue in business. They have been left to their own devices to determine these on the basis of what they perceive as outsiders. Their experiences, since they have been excluded solely on the basis of prejudicial attitudes regardless of the personal qualifications, lead them to believe that nepotism, buying one's way, is essential to success. Those signs of progress are evidence that minority business development is still hampered by a multitude of problems, some unique, others similar in kind, but more profound than those facing businesses generally.

Minority business formation rates and business growth rates lag behind those of nonminorities for other reasons as well. In addition to discrimination, among the problems most significant in retarding business formation and growth are limited capital resources, lack of formal education and business knowledge and experience, undeveloped support network, and limited market potential, which creates a unique need for the MEGA Center project.

Functioning as a unique one-stop business development consulting center, the MEGA Center offers one-on-one counseling by a multidisciplinary staff of 25 professionals in the areas of capital de-

velopment and systems integration, construction assistance and bonding, franchise development and training, market development and research, and international trade.

The center prepares U.S. minority-owned firms to better compete for business opportunities and growth markets in today's U.S. domestic and expanding international marketplace. The center serves as a catalyst for minority business competitiveness for the 21st century, forging partnerships among Federal agencies, State and local governments, corporate America, and the private sector to stimulate business opportunities for this minority business sector of the U.S. economy.

The MEGA Center Consortium represents the most credible and highly respected experts in the field of minority business development. David J. Burgos & Associates serves as the prime contractor and provider of basic management and technical assistance services.

Our consortium members include Chicago International Development Corp. representing international trade; Chicago Regional Purchasing Council representing market development and research; Ralph G. Moore & Associates representing systems integration and capital development; Target Group, Inc., representing construction assistance and surety bonding; and Women in Franchising representing franchise development and training.

The successful implementation of the MEGA Center project required Burgos to make long-term investments resulting in Burgos securing a \$342,000 contribution from Continental Bank N.A. in the form of fully furnished office space.

Additional investments in leveraging public/private sector partnerships results in the establishment of a \$50 million surety bond fund with Amwest Insurance Co., the establishment of our south-side office facility with the Neighborhood Institute, a not-for-profit affiliate of Shorebank Corp. established in 1978 with a commitment to the economic revitalization of South Shore, and the establishment of a Mentor/Protege Program with the Chicago Construction Industry.

Extensive negotiations are currently underway with the State of Michigan and the State of Illinois to establish a formal working relationship with the MEGA Center to leverage resources with a possibility of some additional funding for the center.

Looking at MEGA Center accomplishments, from the first quarter to the third quarter of fiscal year 1993, the MEGA Center's productivity increased from 62 clients to 392 clients being served; from 1,182 hours of management and technical assistance provided to 6,649 hours; from \$1.121 million in combined business transactions facilitated to \$33.5 million, \$27 million in procurement contracts secured and \$6.5 million in loans secured.

Amwest Surety Insurance Co., the 13th largest surety company in the United States, has joined in an innovative public/private partnership with the MEGA Center to help minority contractors obtain bonding for construction projects in Illinois and throughout the Midwest. The partnership is a major advance for minority-owned businesses. It has the potential to facilitate access to bonding which is often a primary impediment for bidding on private and public projects.

Amwest has agreed to underwrite up to \$50 million in surety bonds to qualified minority-owned construction companies in the Midwest, who are clients of the MEGA Center. As the Nation's largest specialty surety company for small contractors, Amwest will offer streamlined application procedures, special underwriting criteria and local approval authority from its Chicago branch office. Whenever possible, collateral requirements will be eliminated by use of the U.S. Small Business Administration or Illinois Job Development Authority bond guarantee programs. The company is U.S. Treasury listed and carries the prestigious A-rating from A.M. Best.

During the past two decades, Burgos has had an opportunity to work with and interface with almost all of the federally sponsored and funded minority business programs. It is relatively easy for me to isolate a number of these programs and find expressions of congressional intent in law that accompanied their enactment.

Most programs, however, that are enacted to assist minority business, contain no statutory language indicating a need, rationale, or factual predicate of any sort. To compound problems further, many minority business programs have complex administrative requirements and eligibility criteria that vary from program to program, agency to agency, and in many cases from one office in an agency to another.

While I am encouraged by the existence of a political base sufficient to enact such legislation, I am concerned with the manner by which these programs were established and the way in which they are monitored by the legislative and executive branches of government.

The simple articulation in statute of the general intent of minority business programs does not by itself tell us how to measure the efficacy of the program. Many questions remain: Are more effective means available to obtain desired results; is there a disproportionate negative impact on small business; will the program yield a return that is reasonable when compared with the size of the Federal investment required to carry it out?

The Federal Government must make choices about resource allocations and judgments about program effectiveness. However, extreme caution is required since this process can deteriorate into a political rather than economic exercise absent an exact pronouncement of policy objects and agreed upon standards of success to measure progress.

Without such standards, I believe that minority business programs will continue to meander from agency to agency and from program to program.

I would like to go over some of the measurable criteria that Burgos believes, based on experience, minority programs should be measured by. Minority business programs should be measured by the degree to which the specific program will: One, contribute to the expansion of economic growth and industrial capability, while providing the concomitant benefits of increasing jobs and the available tax base; two, increase the market share for minority-owned business, measured in terms of a percent of total gross receipts in that market, by shifting control over, or increasing access to the factors of production; three, have minority-owned businesses into

business areas where they have been historically underutilized or that present particularly difficult entrance barriers; four, demonstrate some indication that the assistance provided can produce, within a reasonable period of time, self-sustaining minority-owned business firms, capable of remaining in business without the continuous need for remedial assistance; five, not have a substantial negative impact on nonminority owned small business; six, attract some resources from the private sector and/or State or local governments; and seven, produce a reasonable cost-to-benefits ratio as compared to other available alternatives.

It is not likely that all minority business programs will score high in all seven of these measurement areas. However, the pilot MEGA Center initiative undertaken by the Minority Business Development Agency is a step in this direction.

I must applaud MBDA for having the insight to develop the MEGA Center program. This concept not only fills a critical void in the area of Federal initiatives for emerging MBE's, but also addresses the major issues that determine the success or failure of any business, especially those owned by minority entrepreneurs.

I view this initiative as the first of a series of steps that will lead to true economic empowerment in the minority communities. In the past, minority business initiatives either lacked direction, were underfunded or were targeted to smaller startup-type businesses. In contrast, we envision the Chicago MEGA Center serving as the focal point for current and future minority business development activity. The center will develop the strategic blueprint which will position emerging minority businesses as a key national resource. This blueprint will empower minority businesses to contribute to our Nation's economic expansion in the following ways:

The international trade component will enable MBE's to play a pivotal role in restoring America as the world's leading exporter of goods and services.

The construction assistance and bonding component will expand the pool of MBE's that provide cost-effective, high-quality construction services as America rebuilds its infrastructure and responds to the shortage of new and renovated housing units.

The integrated information systems component will enable MBE's to harness information systems technology in an atmosphere of total quality management and reclaim America's leadership in productivity, quality, and ingenuity.

The franchise component will expand the economic base of minority communities through the ownership of franchises as well as assisting MBE's in becoming franchisers of their successful business.

The capital development component will unlock the key to capital. The challenge is not merely to provide a list of capital sources, but to empower minority entrepreneurs by transforming them from craftsmen into managers and ultimately into capitalists—entrepreneurs who can effectively compete in capital markets for limited resources.

The center's youth entrepreneurship initiative will plant the seeds for the next generation of minority business ownership through an active partnership with youth organizations, the MEGA Center, and the minority community in general.

The information clearinghouse activities will expand the knowledge of the MBE community in the areas of State, local, and Federal entrepreneur programs.

The client marketing activities will provide a framework for discussing and expanding the public/private partnership, preparing MBE's for contracting opportunities with Fortune 500 corporations, matching corporations with capable MBE's and serving as a clearinghouse of information for interested parties.

The outreach activities will analyze the climate for MBE development within each of the 10 States serviced by the center and participate in the development of a customized statewide strategy for MBE expansion.

It is, however, with great disappointment that I was recently informed that the MEGA Center budget for our renewal period, October 1, 1993, through September 30, 1994, is being reduced by \$800,000. This drastic reduction will result in elimination of our south side and west side satellite offices; reduction in the services available through our franchise and international trade functional components; and a streamlining of our effective public/private partnership activities.

The pilot MEGA Center program is the only Federal program addressing the needs of the minority business entrepreneur which is market-driven, customer-focused, and ensures total quality management. It is truly state of the art.

I, therefore, respectfully request legislative action to increase funding for the Minority Business Development Agency, and in particular, funding for the pilot MEGA Center program so that minority enterprises can utilize this state-of-the-art program as a catalyst for competitiveness into the 21st century.

Thank you for the opportunity to share my views and recommendations for enhancing the efficacy of minority business programs.

[The prepared statement of Mr. Herrera follows:]

STATEMENT OF GEORGE HERRERA
PRESIDENT
DAVID J. BURGOS & ASSOCIATES, INC.

BEFORE THE SUBCOMMITTEE ON
COMMERCE, CONSUMER AND MONETARY AFFAIRS
JULY 12, 1993

Mr. Chairman, Members of the Subcommittee, I am pleased to submit my testimony on the status of federal programs geared towards providing assistance to minority business enterprises and how the Minority Enterprise Growth Assistance (MEGA) Center compliments the U.S. Department of Commerce's role in this effort.

Our organization, David J. Burgos & Associates, Inc. (BURGOS) has established an exemplary reputation for developing and implementing innovative market-driven, customer-focused business development services to small and minority businesses, governmental agencies, corporations and economic development organizations.

Since our inception as a Minority Business Development Agency (MBDA) contractor, Burgos has generated an appreciable impact in minority business development. More specifically, Burgos has secured over \$163.13 million in loans for 902 clients. In addition, our procurement development services has resulted in 822 clients securing more than \$134.47 million in procurement contracts. This effort-to-date has resulted in the establishment of more than 3,500 new jobs.

Burgos' reputation as a pioneer in the field of minority business development is evidenced via the award of the first-ever Minority Enterprise Growth Assistance "MEGA" Center.

In October 1992, Burgos was awarded the largest single contract in federal government history to assist minority business enterprises. The U.S. Department of Commerce, Minority Business Development Agency awarded Burgos a \$2.5 million contract to serve as the prime contractor for the Center, located in metropolitan Chicago, IL. Located at 105 West Adams Street, 7th Floor, the MEGA Center is funded through a \$1.8 million federal cooperative agreement and \$700,000.00 in private sector funds.

Functioning as a unique, one-stop business development consulting center, the MEGA Center offers one-on-one counseling by a multi-disciplined staff of 25 professionals. Our mission - to provide the highest quality of services to minority firms in a principled and ethical manner which results in growth and profitability for a minority-owned and operated enterprise.

The Center prepares U.S. minority-owned firms to better compete for business opportunities and growth markets in today's U.S. domestic and expanding international marketplace. The Center serves as a catalyst for minority business competitiveness for the 21st century, forging partnerships among Federal agencies, state and local governments, corporate America and the private sector to stimulate business opportunities for this minority business sector of the U.S. economy.

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Our consortium members include: Chicago International Development Corporation - International Trade; Chicago Regional Purchasing Council - Market Development and Research; Ralph G. Moore & Associates - Systems Integration/Capital Development; Target Group - Construction Assistance and Surety Bonding; and Women in Franchising - Franchise Development and Training.

The successful implementation of the MEGA Center Project required Burgos to make long-term investments in order to effectively create a vehicle which will serve as a catalyst for minority business competitiveness into the 21st century. This resulted in Burgos securing a \$342,000 contribution from Continental Bank N.A. in the form of fully furnished office space.

Additional investments in leveraging public/private sector partnerships resulted in the establishment of a \$50 million surety bond fund with Amwest Insurance Company, the establishment of our South-side office facility with The Neighborhood Institute a not-for-profit affiliate of Shorebank Corporation, and the establishment of a Mentor/Protege Program with the Chicago Construction Industry.

Extensive negotiations are currently underway with the State of Michigan and State of Illinois to establish a formal working relationship with the MEGA Center to leverage resources with a possibility of some additional funding for the Center.

MEGA CENTER ACCOMPLISHMENTS

From the 1st quarter to the 3rd Quarter of FY 93, the MEGA Center's productivity increased from 62 clients to 392 clients being served; from 1,182 hours of management and technical assistance provided to 6,649 hours; from \$1.121 million in combined business transactions facilitated to \$33.5 million (\$27 million in procurement contracts secured and \$6.5 million in loans secured).

Amwest Surety Insurance Company, the 13th largest surety company in the United States, has joined in an innovative public/private partnership with the MEGA Center to help minority contractors obtain bonding for construction projects in Illinois and throughout the Midwest. The partnership is a major advance for minority-owned businesses. It has the potential to facilitate access to bonding, which is often a primary impediment for bidding on private and public projects.

Amwest has agreed to underwrite up to \$50 million in surety bonds to qualified minority-owned construction companies in the Midwest, who are clients of the MEGA Center. As the nation's largest specialty surety company for small contractors, Amwest will offer streamlined application procedures, special underwriting criteria and local approval authority from its Chicago Branch office. Whenever possible, collateral requirements will be eliminated by use of the U.S. Small Business Administration (SBA) or Illinois Job Development Authority (JDA) bond guarantee programs. The company is U.S. Treasury listed and carries the prestigious "A" Rating (Excellent) from A.M. Best.

MEGA CENTER SATELLITE OFFICES

As an extension of the MEGA Center Program, two satellite offices, in the South side and West side of Chicago, augment the Center's services to inner-city communities by providing on-site services and information on market opportunities - international trade, mergers and acquisitions, loan packaging, franchising, private and public sector procurement, and surety bonding. Clients seeking more specialized management and technical assistance are referred to the parent MEGA Center.

One of the satellite offices is located at the South Shore Enterprise Center, a division of The Neighborhood Institute (TNI). This institute, a non-profit affiliate of Shorebank Corporation - - a regulated bank holding company based in South Shore -- was established in 1978 with a commitment for the economic revitalization of South Shore.

The TNI satellite office is located at 1525 E. 53rd Street. The other satellite location is at 2845 W. Cermack Road.

FEDERAL MINORITY BUSINESS PROGRAMS

During the last two decades, Burgos has had an opportunity to work with and interface with almost all of the federally sponsored and funded minority business programs. It is relatively easy for me to isolate a number of these programs and find expressions of Congressional intent in law that accompanied their enactment.

Most programs, however, that are enacted to assist minority business, contain no statutory language indicating a need, rationale, or factual predicate of any sort. To compound problems further many minority business programs have complex administrative requirements and eligibility criteria that vary from program to program, agency to agency, and in some instances, from one office in an agency to another.

While I am encouraged by the existence of a political base sufficient to enact such legislation, I am concerned with the manner by which these programs were established and the way in which they are monitored by the Legislative and Executive Branches of Government.

The simple articulation in statute of the general intent of minority business programs does not by itself tell us how to measure the efficacy of the program. Many questions remain: are more effective means available to obtain desired results; is there a disproportionate negative impact on small business; will the program yield a return that is reasonable when compared with the size of the federal investment required to carry it out?

The Federal Government must make choices about resource allocations and judgements about program effectiveness. However, extreme caution is required since this process can deteriorate into a political rather than economic exercise absent an exact pronouncement of policy objects and agreed upon standards of success to measure progress.

If such standards are established, the public and private sector can utilize these measures by which:

- (1) New initiatives can be evaluated;
- (2) The effectiveness of present efforts can be assessed; and
- (3) Informed decisions can be made with respect to resource allocations.

Without such standards, I believe that minority business programs will continue to meander from agency to agency and from program to program.

Based on Burgos' experience, we believe that the success of minority business programs should be measured by the degree to which the specific program will:

- contribute to the expansion of economic growth and industrial capability, while providing the concomitant benefits of increasing jobs and the available tax base;
- increase the market share for minority-owned business, measured in terms of a percent of total gross receipts in that market, by shifting control over, or increasing access to, the factors of production;
- move minority-owned businesses into business areas where they have been historically under-utilized or that present particularly difficult entrance barriers;
- demonstrate some indication that the assistance provided can produce, within a reasonable period of time, self-sustaining minority-owned business firms, capable of remaining in business without the continuous need for remedial assistance;
- not have a substantial negative impact on non-minority owned small business;

- attract some resources from the private sector and/or state or local governments; and
- produce a reasonable cost-to-benefits ratio as compared to other available alternatives.

It is not likely that all federal minority business programs will score high in all seven of these measurement areas. However, the Pilot MEGA Center initiative undertaken by the Minority Business Development Agency is a step in this direction.

I must applaud MBDA for having the insight to develop the MEGA Center program. This concept not only fills a critical void in the area of federal initiatives for emerging MBEs, but also addresses the major issues that determine the success or failure of *any* business, especially those owned by minority entrepreneurs.

I view this initiative as the first of a series of steps that will lead to true economic empowerment in the minority communities. In the past, minority business initiatives either lacked direction, were under funded or were targeted at smaller, start-up type businesses. In contrast, we envision the Chicago MEGA Center serving as the focal point for current and future minority business development activity. The Center will develop the strategic blueprint which will position emerging minority businesses as a key national resource. This blueprint will empower minority businesses to contribute to our nation's economic expansion in the following ways:

- The International Trade component will enable MBEs to play a pivotal role in restoring America as the world's leading exporter of goods and services;
- The Construction Assistance and Bonding component will expand the pool of MBEs that provide cost effective, high quality construction services as America rebuilds its infrastructure and responds to the shortage of new and renovated housing units;
- The Integrated Information Systems component will enable MBEs to harness information systems technology in an atmosphere of Total Quality Management and reclaim America's leadership in productivity, quality and ingenuity;
- The Franchise component will expand the economic base of minority communities through the ownership of franchises as well as assisting MBEs in becoming franchisors of their successful business;
- The Capital Development component will unlock the key to capital. The challenge is not merely to provide a list of capital sources, but to empower minority entrepreneurs by transforming them from craftsmen into managers, and ultimately, into capitalists -- entrepreneurs who can effectively compete in capital markets for limited resources.

- The Center's Youth Entrepreneurship initiative will plant the seeds for the next generation of minority business ownership through an active partnership with youth organizations, the MEGA Center, and the minority community in general.
- The information clearinghouse activities will expand the knowledge of the MBE community in the areas of state, local and federal entrepreneur programs.
- The Client Marketing activities will provide a framework for discussing and expanding the public/private partnership, preparing MBEs for contracting opportunities with Fortune 500 Corporations, matching corporations with capable MBEs and serving as a clearinghouse of information for interested parties.
- The Outreach activities will analyze the climate for MBE development within each of the ten states serviced by the Center and participate in the development of a customized state wide strategy for MBE expansion.

It is however with great disappointment that I was recently informed that the MEGA Center budget for our renewal period (October 1, 1993 - September 30, 1994) is being reduced by \$800,000.00.

This drastic reduction will result in elimination of our South side and West side satellite offices; reduction in the services available through our Franchise and International Trade functional components; and a streamlining of our effective public/private partnership activities.

The Pilot MEGA Center program is the only federal program addressing the needs of the minority business entrepreneur which is market-driven, customer-focused and ensures total quality management. It truly is "state of the art!"

I therefore, respectfully request legislative action to increase funding for the Minority Business Development Agency, and in particular funding for the Pilot MEGA Center program so that minority enterprises can utilize this state of the art program as a catalyst for competitiveness into the 21st century.

Thank you for the opportunity to share with you my views and recommendations for enhancing the efficacy of minority business programs.

Mr. SPRATT. Thank you very much for your testimony. Could we identify for the record the gentleman who is accompanying you from Burgos?

Mr. LAPERRIERE. My name is Brian LaPerriere and I am the vice president of the MEGA Center.

Mr. SPRATT. Would you spell your last name?

Mr. LAPERRIERE. Sure, it is L-a-P-e-r-r-i-e-r-e.

Mr. SPRATT. Thank you very much. I am glad I asked that question. [Laughter.]

I think we might just take a short break if the stenographer would like a chance to catch her breath. We have been going—you are OK? Fine.

Thank you, panel members, for your testimony. Let me turn first to Congressman Rush, and let him lead off with the questions.

Mr. RUSH. Thanks again, Mr. Chairman. Again, it has been some very insightful testimony by this distinguished panel, and I am going to ask Mr. Moore, first of all, you indicated at the very beginning of your testimony that you had some additional information or some comments that you would like to share regarding HUD. The chairman asked this question earlier and I want to piggyback on this question. Can you let us in on your comments that you have?

Mr. MOORE. OK. Background: We have a contract, a national contract, with HUD out of Washington to assist in increasing the utilization of minority and women contracting within the CDBG funded communities. One of the issues that HUD has identified is that many of their dollars—they do not directly contract—flows through the communities and the communities then do the contracting. And part of our contract is to look at some of the issues: Why are they communities and once they get these dollars, they do a poor job. For example, there is a suburb of Chicago which I will not name, that receives over \$1 million in funding that has absolutely no dollars, no women contracting, no minority contracting, but yet over \$1 million in funding.

We are just getting started on this contract, but one of the issues becomes that HUD has received criticism for those dollars. When you look at the overall percentages, they get impacted by those dollars not being utilized by minority contracting and many times it is out of their purview as far as decisionmaking. We are looking at a variety of avenues, one being just the education of the city government. Again, this community, which is on the outskirts of Chicago, do not have the infrastructure that we have in the city of Chicago as far as an MBE unit, a certification unit. They do not understand the issues. They need to be brought into the process. They do not understand even that HUD is concerned in many cases about some of these issues. As we make progress on this contract, we certainly will be prepared to brief you and your staff and the subcommittee at a future time as to some of the initiatives.

One of the main emphases that we are looking at too is that there are very successful models throughout the country that we want to replicate. Let us produce that model—like in Milwaukee, there is a joint certification in the city of Milwaukee that can be replicated in other areas. In Tampa, FL, there is a housing program that is one of the best in the State as it relates to utilization

of minority and women contractors. In those kinds of activities we need to plan to develop a model which then would be available to other communities. But again, it is an issue where in too many cases things are working in one place, but in other areas of the country, nobody knows anything about it. So again, our company is excited about the opportunity to hopefully have some impact on this issue.

Mr. RUSH. Are there any other concerns regarding HUD's experiences with minority contractors? The chairman had indicated that—Mr. Chairman, I think this was your comment earlier—that HUD had somewhat of a different type of record, a lesser record, more of a negative record than other departments.

Mr. SPRATT. Well, this is anecdotal information. We simply put it out. We picked it up in preparation for this hearing, and I was just interested to see how it bounced back when we tried it on different witnesses who came here. Is it true from your experience that HUD does less well or better than other Government agencies when it comes to letting out MBE-type business?

Mr. MOORE. I think what you have with HUD is like with almost any other agency, there are pockets of HUD that have some problems and there are pockets that are doing extremely well. If you look at Chicago as a region, again, the absence of a regional administrator does not help. I mean we need to assign some of these positions. When you come to the city of Chicago, Ms. Lane, who is implementing some of the HUD programs, has done an excellent job, probably one of the best in the country. But when you go into other pockets of HUD where enforcement has not been that strong, you certainly will have problems. So I think it would be a spotty record, but you will find pockets of excellent activity. And I think you will also find within the technical assistance area of HUD that there are many initiatives that have been put in place to address this issue but it is somewhat disjointed. I think the new administration offers new hope because you have 20-year bureaucrats who are just career employees. They go with the flow and if they get a signal from the Reagan administration or the Bush administration that this is not a significant issue, there is no incentive for them to take risks. There is no incentive to go against status quo. I think the message that the Clinton administration has sent just by the appointments, let alone the other commitments that have been made, certainly will shake up some—will cause some movement in this area. And I think that is where we are going to see across-the-board changes in attitude, which I think is the underlying problem within HUD.

Ms. RATNER. I was just looking at some statistics from GSA on 8(a) contracts in construction, and they are pretty dismal. I assume that much of that is HUD contracts. In 1991, eight 8(a) contracts—I am speaking of course now about minority business owners because that is who 8(a) contractors are—were in construction. There were eight contracts for \$51,000 in this region and in 1993 there were 11 construction contracts, dollar value was \$68,000. I mean, we are talking about—

Mr. MOORE. That is GSA.

Ms. RATNER. Yes, that is under GSA, I am sorry, not under HUD. But I was just thinking, in construction that is pretty dis-

mal, especially when we have a very strong, very active construction community with the capacity to do a hell of a lot better than that.

Mr. RUSH. Ms. Ratner, while you have the microphone, in your testimony, you indicated that you would like to see the Department of Transportation break out the DBE program and minority program.

Ms. RATNER. Yes.

Mr. RUSH. Can you elaborate, you indicate 7 and 7?

Ms. RATNER. Yes. We would like to get as much as we can get, but we selected 7-percent minority, 7-percent women business enterprises in all Transportation contracts, but with the provision that there be—right now the Surface Transportation Act allows one subcontractor on a major project. If you have a \$700 million project and you have one subcontractor who is a DBE for 10 percent of that because they never go beyond 10 percent, you are talking about a capacity that most women and minority contractors do not have. They do not have the performance bonding capacity, they do not have the surety bonding capacity, and they do not have the capacity to handle a project that large. I would like to see the amendment changed or revert back to goals for minority and for women, that there be a review of the entire breakout provisions and that that usage of one subcontractor be eliminated. And I say 7 percent/7 percent.

Mr. MOORE. Hedy mentioned we agree on a lot of things, but we do not agree on this one as far as the numbers. Again, I respect the need for women business development and certainly Hedy has led the charge throughout the country, but I think to even suggest that there will be equal percentages would not give fair balance to the issue. And I am into the history and I think a lot of history has already been presented, so I am not going to go back through it, but this whole issue of minority—it was in response to the riots, black capitalism. President Nixon brought this to the table and initially it was a black program. And then they said well we had better say minority because the Hispanic issue is certainly real and certainly there are some important issues and then we expanded to the Asian program. But what has happened, the dilution of the minority category, those MBE's or those businesses that were initially intended to be benefited, which were the black, the African American business owners, are now in a shrinking role in most of the programs throughout the Federal system. And I think until we address that, you are going to have a potential powder keg within communities because we are now getting beyond the initial issue we were attempting to address, which is economic deprivation within the black community.

So, whatever we do as far as separate goals, I think we have to always keep in focus, keep in perspective that it is the black community that was initially suffering when these issues were put on the table. We do not want to make this a social program, but we need to keep in mind that there are some social issues that drive all these programs. And I would argue that the issues, the economic desperation issues within the women business community is not equal to that in the black business community.

Mr. RUSH. From department to department, there seems to be an uneven implementation and enforcement of the regulations that would lend itself to opportunities for minorities and women. Would you be in favor of a centralized procurement entity within the Federal Government that would have as a key component minority DBE capacity?

Mr. MOORE. I think what happens—there has to be some centralization of the operations. I think what happens, the monitoring, setting the standards, certification, acting—the data base I think was mentioned earlier, the 129, there are a whole lot of issues. Every agency has their own program and it creates—for the average entrepreneur, he is working or she is working 60 to 80 hours a week and then—that is just to try to break even. You know, your family does not see you, your employees think you are rich. I mean you are fighting a lot of problems out here. And then you have 40 agencies who want different forms and different people you have to see—it is almost impossible.

So the smaller entrepreneur, he sees so much or she sees so much red tape, she leaves the system alone. And even getting certified 8(a) is such a problem. So if there was one area that would monitor the programs, if you could plug into one place and then have access to the total system, I certainly would agree with that. I think in too many cases, you still need direct access—like DOD is going to be different than DOE and you need to be able to negotiate those differences and learn those differences. But without having to get over the hurdle of certification and all the other issues, I think there should be a centralized place for that. And also on the government side, there should be one master strategy as it relates to what are the MBE goals by Asians, Hispanics, blacks, women. Let us get all that out of the way in one place so we can take the time of the agency, the buyers and the contracting officers to deal with the issues of how do we increase the utilization of these companies, not if you are certified, do you have the right SIC code, and all the other issues.

SBA has been a good client of ours, so I am going to defend them and not just because they have been a good client, but I think SBA has been criticized unjustly. They have never been staffed properly to do the job. In Chicago, we have two business opportunity specialists [BOS's]—I think we have one business opportunity specialist, a business opportunity assistant, and a contracting officer to service 120 8(a) firms. It is impossible. You are lucky to get—the only letter I get from my BOS now is did you send in your annual report, and that is on a fifth generation copy that is sideways on the paper, you know. I am saying that we have to give SBA—I think SBA can do a lot more for the 8(a) program if they are adequately staffed.

I have been in the headquarters of SBA on L Street, where a phone would ring for 30 rings and the person sitting there did not have time to answer it, like hey, I am doing this, I am doing—I mean, it is a mad house in SBA, they do not even have secretaries.

So I think if we gave SBA more staffing and elevated—and I think it is also critical to elevate their role in the agency. Right now they have the same position they had in 1968 when they were brought in as a response to the riots. And I contend that until you

move them up to an Assistant Deputy Administrator level, where Duke Watts can report to the Administrator instead of going through another layer of bureaucracy just to hold a conversation—if we can do that, I think we can eliminate some of the procurement issues because right now, SBA cannot do for the 8(a) companies what they need to do because they do not have the staff or the power.

But I think trying to bring one central procurement agency to the table might be difficult because you really are going to create another level of bureaucracy that I think could create some problems.

Mr. RUSH. Ms. Ratner, you indicated in your testimony—you alluded to capital—

Ms. RATNER. Access to capital.

Mr. RUSH [continuing]. Development, access to capital. Can you address the matter that in some quarters is being proposed regarding the extension of the CRA requirements to cover commercial loans?

Ms. RATNER. Yes. I am kind of torn on that issue. I am actually more excited about some of the changes that were made in reviewing policies and providing the 20-percent set-aside of the loan portfolios for small and emerging businesses rather than adding another layer of regulation onto the banks on CRA. I think that with the implementation over the last few years where the regulators have now made CRA investment a serious issue in their reviews, I think that is a crucial issue. I would like to see commercial lending as part of CRA, but not if it adds another layer of undue burden and regulation. I am kind of torn on it. I think I supported some legislation in the State on it and I still was not sure I really wanted to do it. I think with CRA there have been major changes. With the issue of the 20-percent set-aside in the loan portfolios, I think there also will be increased access.

Mr. RUSH. Ms. Davenport, the MEGA Center is an overwhelming success in this region in Chicago. I know that it has definitely made a difference in terms of minority entrepreneurs and business owners. I have some information, I am not sure how accurate it is, and I would like you to talk about this if you can. I understand that the MEGA Center's budget was cut so that there could be another MEGA Center established somewhere in Los Angeles, is that correct?

Ms. DAVENPORT. That is correct, by \$800,000.

Mr. RUSH. OK, and can you say categorically that the reason for the cut is to open up the Los Angeles center?

Ms. DAVENPORT. I am going to ask Mr. LaPerriere to respond to that.

Mr. RUSH. Thank you.

Mr. LAPERRIERE. I cannot say that categorically. We are aware of the fact that we were informed that there was about \$5 million in next year's budget for MEGA Center operations and that a new center would be opened in the Los Angeles area. We received a renewal packet last week that indicated that there would be about an \$800,000 cut, which represents about a third of our budget. We understand that there is about \$3 million in the program of the

five, to go to the Los Angeles area, but that is just information that we have received.

Mr. RUSH. \$3 of the \$5 million is to go to the Los Angeles area?

Mr. LAPERRIERE. Right.

Ms. DAVENPORT. And this is very important to us, because when you look at organizations like the SBA and you take into consideration comments that were made earlier about the organization being a very good organization, but one of the main problems is they have never been properly staffed. Here you have a workable solution that the Department of Commerce through MBDA has come up with, and the concern is not to join the ranks of, if you will, another glorified program. It is a workable solution that we would like to see work as well as I am sure everybody else that is affiliated with it.

Mr. LAPERRIERE. MBDA has been doing an excellent job for the past 20 years and a couple of years back said if we are going to develop a bigger service, a better service, a more sophisticated service, what might we do? They came up with the idea of a MEGA Center that said a typical client of a minority business development center today is someone who is coming in for assistance with a \$50,000 loan or a \$100,000 loan where they might buy a new piece of equipment or machinery and increase their employment by one or two people. Maybe we can do something to assist them in buying a company and increase employment by 30 people, get access to the bigger deals, the more sophisticated deals. The delivery mechanism that they came up with to do that was the MEGA Center and said if we could offer more sophisticated talent and more help and more resources, we could do bigger deals for these firms. By taking the MEGA Center, which is still in the 9th month of its pilot year, and pulling back the funding and saying we have got the idea now on the table but we are going to take away the funding and so all you are going to be left with is a shell.

There are currently about 105 minority business development centers in the United States and they are the primary vehicle for the services—delivery of services to MBE's and DBE in the United States. Our office at the MEGA Center is to support those MBDC's within the 10-State region of the Chicago regional office.

With the funding cutback that we are looking at of a third of our budget, we are really a very good looking minority business development center that is not going to be properly equipped to handle the kinds of things that I think were originally envisioned. The pullback that we will have initially will be in the international trade arena, in the franchise development arena, and then a withdrawal of some of the support that has been given for capital development and the bonding and construction piece and the integrated information systems piece.

Of the two panels that you have heard from so far, you spoke with Mr. Williams of the Target Group, who is a consortium member; Mr. Leite, who sits on the Surety Committee which was created out of the MEGA Center; Mr. Moore, who is actively involved in the MEGA Center; and you cited the Chicago Regional Purchasing Council, which is also a member of the consortium. You are hearing from the people who have their finger on the pulse of what is going on in minority business. And what we are hearing back

with the withdrawal of \$800,000 or a third of our support, is a disconcerting message.

Ms. DAVENPORT. I just wanted to add that this cut will absolutely handicap our ability to service the 10-State region in the way and manner that we are doing so now.

Mr. MOORE. My partners are doing an excellent job of pleading the case of the MEGA Center, so I will not do that any more, but I want to talk about a more general piece that the MEGA Center addresses. You see, what has happened, when all these programs came into being in 1968, we had one—outside of John Johnson at Ebony magazine and a few people who you could almost count on one hand. Most minority businesses were your small businesses. And what you basically had in 1968 was an explosion of \$75,000 SBA-guaranteed loans for retail shops, which 90 percent went out of business, but people just basically throwing money at an issue. You had one category, small black businesses. Twenty-five years later, we have a very diverse minority business community that requires a very diverse set of services. But the management and technical assistance strategy has been the same for the past 25 years.

So the MEGA Center offers that tier—and in my recommendations in more detail, I talk about three tiers of MBE's where you have the large tier: Tier one, which has revenues over \$1 million; tier two which is maybe \$250 to \$1 million; and tier three which is less than \$250,000 in revenue. They need a very different type of technical assistance, not just the same kind of assistance.

Now what you have with your SBDC's in most cases, they are set up to service your smaller firms. In many cases they do workshops on how to get a business license and how to set up your home-based computer. That is fine for the growing companies, and unfortunately 90 percent of MBE's are in that tier three, that smaller level. But if we are going to ever plug into the system, we have to take our MBE's from tier three to tier one.

Tier two are your medium-sized firms, they have a different need, and many of the 7(j) contractors will address that. Some of the basic services within the MEGA Center address that level, but it is still not enough assistance in that tier two level for MBE's.

And in your tier one, your larger MBE's, where we see most of your 8(a) firms, they look to 7(j), which in most cases have less than 150 task days, which is not enough, and then they look to services like the MEGA Center. And unfortunately between the two, the resource is so scarce that very few of your larger firms can get technical assistance. So then you are plagued with the problems that the bonding individual spoke of earlier about not being prepared for bonding because they do not have the adequate financial management or do not have the adequate cash-flow statements and all the other things you need to grow a business. So, although they might be very large in the minority business community, they still are not prepared to compete in the majority or the nonminority community. So what happens, that is why you have—there was a study 5 years ago where 40 percent of the 8(a) firms go out of business within 2 years of graduating from the program because there is no lifeline that takes a small firm from being a big minority firm

to being a small non 8(a)—you know, just a small firm in the big pond.

So somewhere, we have to address the issue. And again, cutting back on the MEGA Center is not the way to do it. As a matter of fact, I think there is a need to—I know dollars are scarce, but we have to look at more technical assistance. Section 7(j) is an excellent vehicle but probably could be tripled or quadrupled to even address the issue.

In Illinois, we have 120 8(a) firms, and they are dividing 160 task days. That does not do the job.

Mr. SPRATT. 160 what?

Mr. MOORE. Task days from the 7(j) program. And the average engagement is about 10 task days. So we can help—and we are the 7(j) contractor here, we can work with maybe 10 firms, 10 out of the 120. And the other 110 are on their own or they go to the MEGA Center, which again, they are getting cut. So it is really not a lot of assistance out there once we get beyond the basic services.

Mr. RUSH. Ms. Davenport—Mr. Chairman, this is the last question I have.

Mr. SPRATT. You go right ahead, take all the time you need.

Mr. RUSH. Ms. Davenport, you indicated earlier that you were involved in international trade—you have an international trade component for the MEGA Center.

Ms. DAVENPORT. Yes.

Mr. RUSH. Can you give us an overview of that? I am particularly interested in securing opportunities in the international area for minority business and I would just like to get an overview from you.

Ms. DAVENPORT. The international trade component of the MEGA Center is spearheaded by the Chicago International Development Corp. We are actually equipped to go into a foreign market for a client. We will conduct a feasibility study, we will actually identify companies within that foreign market that will be interested in your product or service that you want to sell in that market. We will actually put the meetings together for you, we will sit down at the round table with you before you go into that market. We will prepare the business plan that you need. We will do your financial preparedness study, to find out whether or not you are actually capable financially to go into that market. And once it is all over, we will give you a complete report of the demographic study within that area.

Do you want to add something?

Mr. LAPERRIERE. That pretty well covers the services that we offer. In the pilot year program of this project, we are trying to take a look at what we can do with this international trade piece. When we originally started out, we had about 1,400 M&TA hours that we were going to devote to this category. What we are finding is that what we had envisioned is a little different than the way it is turning out. A lot of the people who export to a foreign country and do it successfully do it one of two ways. They can manufacture the product where their product is unique from somebody else's and so that they have something that they are bringing to the table, or that they can compete on terms of price. In the minority business community, manufacturing is not as prevalent as it is in

the nonminority business community, primarily because of the capital that is required to get involved in the business. So we are finding that there are not that many firms out there in that mode.

On the other mode, those that are in the nonmanufacturing side, we are finding firms that cannot—it is competing on price alone with these foreign markets. And a lot of minority firms are incapable of competing on price compared to being in competition with the nonminority firm because they pay a higher rate of interest, they have to carry a lower inventory, their access to capital is not as great, and their costs are generally higher.

So what we are moving to now is a two-tier approach where we are focusing on a fewer number of manufacturing concerns, to assist them in developing in the export business, and then working on the training and seminar side so we can take free export firms that are in existence today and assist them in telling them what it is they are going to have to do to become export ready.

Mr. RUSH. What type of success have you had so far? Have you actually had firms and do you have firms now who are actively doing business in other countries?

Mr. LAPERRIERE. The extent of our success so far has been in feasibility studies. These studies take awhile to get done. We have about four firms for which we have done feasibility studies and two of the four seem to hold some promise for doing some business.

In conjunction with the Chicago International Development Corp., there has been a trade mission to South Africa. There is another trade mission that is getting started. The trade mission to South Africa was not exactly sponsored by the MEGA Center, but in conjunction with some of the people we have going or working at the MEGA Center. We are also working on a second one, probably to Mexico later in the year. Originally our budget envisioned that we would do two trade missions. With the cutback that we are looking at, the biggest hit is going to be on the international trade side.

Ms. DAVENPORT. Yes, I was about to say, when we talk about education also for MBE's, international trade is an area that is very fearful for many MBE's, it is not an area that we are trained in when we are going through our grade level, high school, or college. Unless it is something you specifically are interested in, it is not an area that is open to us. That is part of the purpose of the MEGA Center, we can educate MBE's on the opportunities available in international trade. With the cutback, it is null and void, it is not going to be possible any more. There are not very many technical assistance services out there with the exception of people like Ralph G. Moore & Associates, that are available to provide that type of education to MBE's.

Mr. MOORE. Congressman, I know that international is something you have done a lot of work with and I know that in many cases you have encouraged people to take trade missions. And one of the things that we are prepared to do at the MEGA Center is upon return—and I think this is where the critical piece has to happen—once you go and look at that market and you know where your opportunity is, or where opportunities might be, you come back to the MEGA Center and instead of paying \$150 an hour, which is the going rate out there for international trade consult-

ants, according to your level of revenue, you pay either \$10 to \$17.50 an hour to explore that international opportunity. Because in some cases, it does not work out, or many times it might take a year to develop that relationship and certainly the MEGA Center's rates will allow you to finance that research and development and market development at a rate where a small business can afford it, versus being faced with a \$15,000 to \$20,000 fee from a consultant where you might have to say no, I just cannot do it.

So again, I think it is a critical opportunity.

Mr. RUSH. I am getting ready to take a delegation to Taiwan, small delegation to Taiwan, business people, minority business from the city, the middle of next month. And I am really wanting to work closely with you to try to get some insight in terms of how we could work together to make this successful.

Ms. DAVENPORT. Absolutely.

Mr. LAPERRIERE. Before and after that trip, the MEGA Center has some services that could be helpful.

Mr. RUSH. Thank you. Thank you, Mr. Chairman.

Mr. SPRATT. Thank you very much, Congressman Rush.

Let me just hit a few highlights with you and get your reaction to questions we have asked other witnesses as well.

As we look down the sequence of seeking out and placing business opportunities with minority business and women-owned firms, first of all is the identification of contract opportunities. Do you see that as a major problem area and one which can be improved upon, and if so, how?

Mr. LAPERRIERE. Well, it is certainly a major problem and one that can be improved upon.

Mr. SPRATT. Will you be specific as to agencies as you take it.

Mr. LAPERRIERE. I am probably not the right person to speak about agencies but if I can speak a little more generally. I do not believe there is a national clearinghouse for information on procurement opportunities governmentwide and I think this is something that is probably a good idea, something that should be looked at.

If we just talk about the minority economic community, within MBDA, there are 105 minority business development centers, each of those working with 50, 75, 100, 200 clients. It seems to me that if information could be made available at a national level, it could be disseminated very quickly through 105 offices, each having a client base that is very large. We, like many of the people that you have heard from, are made aware of contract opportunities at the 11th hour. We frequently get things where it is too late to do anything with them.

Last week we had a conversation with the military to see if there was some way within the Chicago—I think they have a 14-State regional area, I think there are about \$150 billion of procurement opportunities. We are a logical place where those opportunities could be disseminated among our client base. That currently is not happening. I think if there were an opportunity to say use the MEGA Center, use MBDC's as the fulcrum and disseminate information, it makes a lot of sense.

Mr. MOORE. I think again, information—Mr. Copelin made an excellent point too—many times by the time we get the information,

the deal is cut. By the time you see it in the Commerce Business Daily, you can read the IRP and you kind of know it is wired for somebody and you can go ahead and spend \$5,000 to \$10,000 chasing it if you want to, but it is gone. And even the subcontracting issues with some of the larger contracts, you can call up a prime who has the edge or the inside track on a procurement and you can tell by the conversation that they are not even interested—do not even call me, do not talk to me, I am not interested in talking with you, I have who I am going to do my business with.

I think the issue comes back to Mr. Copelin's issue of before the information is put on the table, how do we get into the loop, how do we get into the planning, the R&D on these procurements. Instead of it being a \$50 million procurement, how do we make it 10 \$5 million procurements where a minority contractor can get one of those or a woman-owned contractor can get one of those.

I think too many of us learn the hard way that just chasing after these bids will put you out of business. I think the issue becomes we need to huddle and develop a new strategy and hopefully with the Committee on Government Operations' help, give us some new clout as to reconfiguring the procurement system because the system right now is not set up for a small minority, women-owned contractor to even have enough information to bid. And you might get lucky and get one, like we got lucky with HUD and the contract we have was not a set-aside, it was the largest nonset-aside contract awarded to a minority firm and we have been catching hell inside of HUD because of that. The question has been like "who in the hell are you, how did you get this contract." And so it has been a tough issue.

And again, I think we have to come together. I know we have an active 8(a) association here in Illinois and I say that although I have missed most of the last meetings because I was out of town, but I think we have to come together, get with our representatives and instead of knocking SBA, we have to come together with SBA. Instead of knocking Congress, we have to come together with Congress. And let us talk about new strategies for approaching this procurement issue, because just learning about a contract, getting the forecasts and all the other things just will not get us to where we have to go.

Ms. RATNER. I think one of the issues that I address in my testimony is that it has got to come from the top. That is, if the President will in fact indicate clearly that he is committed to goals, affirmative action goals in contracting and employment contracting, that will help. And let each agency director and each cabinet-level person make that clear to the purchasing departments and the buying officers, that will help.

Also, I agree that we need uniform goals across all the Federal agencies. There have to be goals set and there has to be something in a performance way that is tied to those goals so that implementation is required. The certification issue is another one, to ensure that we are in fact awarding the contracts to legitimate minority and women-owned firms.

Breakouts, as we mentioned—Mr. Moore indicated that as well, making them more accessible to some of the smaller contractors. Having those set-asides and sheltered markets be real and for both

the small and the larger Federal agencies, affiliated with—and I am not sure how active coalitions and organizations like the ones in Illinois are, but I am sure in other States there are also 8(a) contractor associations, minority contractor associations, women's business organizations that have to be utilized to do the outreach and information availability on those contracts.

And I think that setting the goals, having it come from the top, doing more legitimate outreach will help.

Ms. DAVENPORT. I would like to say that I am proud to fall in line with Ms. Ratner when she says that she agrees with Mr. Moore because there is not enough of this type of agreement going on, particularly within the Federal agencies and State and local governments. And if we could have more agreement and more combined efforts, we would see a lot more progress.

As the MEGA Center serves as a catalyst for minority business entrepreneurs, moving into the 21st century, when we talk about new strategies, that is what is important, that forging of partnerships between the Federal agencies, between State and local governments. It is a must.

Mr. LAPERRIERE. As has been said before, there is no national articulation of MBE, WBE, and DBE status. We sat down in a meeting with HUD and said listen, why reinvent the wheel, we have got a mechanism here where we might be able to provide some assistance to minority-owned firms, and immediately started to come to loggerheads because of what our definition of an MBE is and what their definition of an MBE is.

Mr. SPRATT. Now why is that?

Mr. LAPERRIERE. Well one might include women, for example, is probably the biggest point, where one includes women and the other does not. The U.S. DOT, we spoke with them and their first question was well can you guys work on women out of this office, just nonethnic minority women. We said no, our hands are kind of tied, our policy requires that we pretty well deal with ethnic minorities. So in addition to there not being a nationally articulated strategy, nor is there a nationally articulated standard. And I think to the extent that we could get those two things going, it would probably add a lot more efficiency to the system.

Ms. DAVENPORT. Absolutely.

Mr. SPRATT. How about 8(a) surety bonds, how about the requirement of surety bonds? To what extent, in your experience, is this a barrier, a threshold barrier that precludes lots of small business opportunity?

Mr. MOORE. Well, I agree with your raising the threshold. I think it is critical—you see, it is a catch 22, you cannot get a bond until you have experience, you cannot get experience until you have a bond. So unless you raise that threshold—as long as that threshold is too low, that little experience you get is great experience but it is too low for me to bond you. That is a small job, we do not know if you can do a big job. I agree with the discussion earlier, where if you raised that threshold maybe to \$1 million because my problem is that the whole country sat by and talked about this S&L scandal like it was a piece of cake and we are talking about more money that has ever been spent on minority firms in the history of the country. And we snapped our fingers and wrote that off, but

yet we are worried about a guy defaulting on half a million dollar contract. In most cases, a hardworking guy or woman will do all he can to make sure that contract works. I think the risk is minimal, the experience that we would gain is critical. And see, one of the issues too, we do not link the issues—we do an awful lot of studies in this country and Work Force 2000 is all but a given, everybody agrees that Work Force 2000 is real. So if Work Force 2000 is real, I contend that there will be—2010, it is going to be Decision Maker 2010. The minority people who take over the work force will now be in the decisionmaking process and again, we are lighting a powder keg if we do not let people plug into the system.

I contend that we need minority contractors ready for 2000 and 2010 and the way to get people ready is to give them experience, the opportunities for experience and the risks and the investment, really is what it is, the investment of a few defaults that might occur, will far be offset by the benefits of expanding the pool of qualified minority firms with a demonstrated track record. So I agree completely with raising the threshold.

Mr. SPRATT. Well, let me thank you all for your testimony and ask Congressman Rush if he has any further questions before we close the panel.

Mr. RUSH. Mr. Chairman, I have just got a comment and that is I think the testimony that we have heard today certainly lends itself to being part of the discussion that the Vice President is engaging in now in terms of reorganizing government. I think this is very appropriate and I would also suggest that you pay close attention to and get yourself involved in the process that the Vice President is engaging in, in terms of reinventing government because I think that is where we can have some real impact on redefining minority and women-owned businesses.

Mr. SPRATT. Thank you all very much.

I think it would be useful for everybody if we had a 5 or 10 minute break before we call our last panel.

[Recess taken.]

Mr. SPRATT. We will go ahead and get started. I know Congressman Rush is probably doing what I was doing, that is talking to the many people here in the room about different kinds of problems they have got. And I understand, every time we hold a hearing like this, we bring to the surface particular problems that those who have come today would like to lay before us so we can help them find a solution—that is what it is all about.

Our last panel is composed of officials of U.S. Government agencies. It includes Kenneth Kalscheur, who is the Acting Regional Administrator of the General Services Administration. Mr. Kalscheur, welcome, thank you for coming. Miranda Jackson, who is the Acting Director of the Office of Small and Disadvantaged Business Utilization. Welcome to you, thank you for coming. Scott Denniston, who is the Director of the Office of Small and Disadvantaged Business Utilization. Mr. Denniston, thank you, sir. Jane Palsgrove Butler, who is the Deputy Associate Administrator for Minority Business and Capital Ownership Development at the SBA and finally John L. Smith, who is the Illinois District Director of the Small Business Administration. And he is accompanied by regional and district officials. And I omitted Thomas Cooper, who is

the Director of the National Acquisition Center, Department of Veterans' Affairs, in Chicago. Thank you, Mr. Cooper.

Let us take your testimony, if you will, in the order that you are presented. Let me just say that we do want to wrap up today by 1 p.m. That gives us an hour for your panel, which I think will be a little tight, but nevertheless, we want to get a full airing from everybody. If you can summarize your testimony, it would help, but I do not want to constrain anybody. Also, we will try to get your responses to questions that were raised earlier, and you should feel free to depart from your testimony and take the occasion to respond to questions or points that have been made in the testimony of earlier witnesses.

Mr. Kalscheur, we will start with you, and the floor is yours, sir.

STATEMENT OF KENNETH KALSCHUR, ACTING REGIONAL ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY MIRANDA JACKSON, ACTING DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

Mr. KALSCHUR. Thank you, Mr. Chairman, Congressman Rush.

I appreciate the opportunity to appear before you today to share some of our thoughts pertaining to the problems confronting minority and women-owned small businesses and the adequacy of Federal agency activity directed to such businesses. We in the GSA aggressively support the active participation of minority and women-owned businesses in the Federal procurement process and welcome this opportunity to share some of our experiences with you.

As you mentioned, I am accompanied by Ms. Miranda Jackson who is the Acting Director of our Office of Small and Disadvantaged Business Utilization in GSA's central office. I would also like to recognize the individuals from our staff; namely James Czysz, who is the Director of our Business Service Center; Frank Priore, Deputy Director, Public Building Service Contract Division; and Emma Guins, who is the Chief of our Building Services Contracts Branch.

In the interest of time, as you mentioned, I ask that my written statement be accepted in its entirety and I will attempt to briefly summarize.

The U.S. General Services Administration has as its mission to provide quality services required by our clients in a timely manner and ensure the best value to the Federal Government and the public, thereby enhancing our clients' ability to accomplish their mission.

Our operations are conducted by almost 20,000 employees in 11 geographic regions across the country. In our region, region 5, we are responsible for the support of Federal activities in the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. We are responsible for the construction, maintenance, security, repair, and general upkeep of GSA-owned Federal office buildings in these States. We also contract to lease office space when there is not enough GSA-owned vacant space available.

In response to your questions on the extent of small business contracting and subcontracting, I offer the following: During fiscal year 1991, we procured about \$270 million worth of services here

in region 5, 66 percent of that went to small businesses, 3.8 percent of that went to minority businesses, both 8(a) and non 8(a) awards, and 0.6 percent to women-owned business.

In fiscal year 1992, we procured \$226 million of prime contracts, 59 percent of which went to small business, 10.9 percent to minority business, 2.1 percent to women-owned.

The most current figures for fiscal year 1993, as of June 15, indicate that so far this year, we have awarded \$97 million in prime contracts of which \$70 million, 72 percent, went to small businesses, \$18.3 million was awarded to minority business, and \$3.2 million to women-owned businesses.

The significant improvements in preferential contracting from fiscal year 1991 to fiscal year 1993 can be attributed to a heightened awareness toward the needs of small minority and women-owned businesses on the part of top management within GSA. Regional offices were asked to establish quality initiative teams to improve GSA's performance in this area. Some of the major achievements of region 5's task force were one, to increase 8(a) contracting awareness within our contracting offices by inviting the Small Business Administration representatives to participate in some of our regular task force meetings and to conduct formal training sessions specifically on the 8(a) program for our regional contracting officials; two, to increase the involvement of our 14 field offices in procurements under \$25,000; three, to establish targeted outreach activities in the form of breakfast conferences for women-owned and veteran-owned businesses; and four, to incorporate preferential contracting reporting as a regular agenda item on our general management review meetings.

Briefly, regional goals are established for these programs based on past accomplishments and projections of expected improvements, national initiatives and discussions between regional officials and our representatives from the GSA office in Washington.

Here in region 5, preferential contracting goals are regularly monitored and addressed at quarterly management review meetings. Online access to GSA's procurement reporting system facilitates the early detection of potential shortfalls and significantly increases the ability to initiate prompt action to resolve or diminish the problem. As an example, a potential shortfall in awards to women-owned businesses, early during fiscal year 1993, led to the establishment of two procurement conferences in Chicago geared specifically toward women-owned businesses. A total of 150 women business owners attended these conferences; and although it is not possible to attribute the improvement in awards to women business owners directly to the conferences, regional performance has significantly improved since the conferences took place.

As to the question of the development of subcontracting plans in our prime contracts, GSA has recently changed its policy for prospective level projects. We now require subcontracting plans to be provided in the initial offer rather than the previous practice of such plans being provided by only the successful offeror just before an award.

We in region 5 initiated this concept with the new Chicago Federal building now called the Metcalf Building. We emphasized the importance of a significant subcontracting program by making a

statement to that effect in the solicitation of offers, and we required that all offerors submit subcontracting plans with their initial proposal. By requiring plans up front, we believed that offerors would be more inclined to develop aggressive goals, especially for minority and women-owned businesses. We also contracted, under the 8(a) program, for the compilation of a directory of minority and women-owned small businesses as potential subcontractors that was distributed to all parties who expressed an interest in submitting a proposal on the project. The achievement of the developer's subcontracting plan for the Metcalf Building demonstrated the success of the policy change.

In summary, the project placed almost \$51 million, 51 percent of the project, in the hands of small business, of which about \$38 million was infused into the disadvantaged and women-owned sector of the economy. We have a similar project going on in Detroit for the IRS and the goals compare favorably to the accomplishments of the Metcalf Building in Chicago.

Those goals are a total of 47 percent of the contract going to small business, 30 percent to small, disadvantaged, 7 percent to women-owned. We fully expect to see the same results in dollars returned to the small minority and women-owned business community of Detroit as was the case in Chicago.

I will go back to a question that was identified on the earlier panel that mentioned a fairly small amount of contracts in the construction area for 8(a)'s from the GSA in fiscal year 1993 and fiscal year 1991. Those numbers are correct, but we primarily do our 8(a) contracting in our building services area. Most of our efforts in contracting for construction, and the achievements we have realized are in the subcontracting area, which results in much larger numbers for the minority and the women-owned business community.

In answering your questions on our concerns and suggestions on the Section 8(a) program, I offer the following: In concert with our mission of satisfying our client agency requirements, three of the major factors considered when we are contracting are one, timeliness—namely obtaining a contractor when service is needed; two, the quality of the contractor, obtaining a contractor who can perform required services, and three, dollars, the best value for the Government. All three of these factors enter into our suggestions for improvement or changes.

No. 1, change SBA policy that restricts the competitive bid process for 8(a) contracts from the present \$3 million limit to \$500,000. Developing this competitive process has been a major improvement in the 8(a) program with positive results in terms of timeliness, quality of contractors and price. However, at present, a waiver must be granted by SBA on a case-by-case basis for contracts under \$3 million. This extends time and, if unsuccessful in gaining a waiver, puts you back at the beginning of the process.

No. 2, for improvement, remove the requirements for internal audits for a prospective project over \$500,000 when the proposal falls within the Government estimate. Presently all prospective projects over \$500,000 require an internal audit which can extend the contracting process up to 3 months.

No. 3, reinstitute the provision of the business development expense funds to fund disparities between the agency cost estimates

and the best offer negotiated with the 8(a) firm. Presently much time is consumed negotiating downward to the Government estimate from the initial 8(a) firm's proposal which often are unrealistically high. The business development funds used to be available to fund the difference. A contract could then be awarded at a reasonable cost to GSA and the 8(a) firm would receive an award that it would not otherwise receive.

Another suggestion for improvement might be to structure the 8(a) program in a similar manner as the current small business and labor surplus area set-aside programs. In such a scenario, SBA would certify a firm as eligible and any firm so certified would then be eligible to compete for procurements specifically set-aside by the contracting agency for minorities. Although this can be considered a radical change, it should both enhance the participation of minority businesses as well as greatly simplify the current 8(a) process.

Fifth, improvement—

Mr. SPRATT. Could I just interrupt you for clarification. What you are saying there in that case, GSA would do business directly with the small business, as opposed to contracting with SBA which in turn would contract—

Mr. KALSCHEUR. Yes, exactly.

Mr. SPRATT. And this would uncomplicate matters in those cases considerably.

Mr. KALSCHEUR. Yes.

Mr. SPRATT. I do not think that is a radical change.

Mr. KALSCHEUR. Well, it would be a good change.

Mr. SPRATT. Seems to me like a logical change. But go ahead.

Mr. KALSCHEUR. Well, we would agree with that.

The fifth change is an increase in minority business participation in Government contracts could be achieved if a special 8(a) subcontracting set-aside program were established. And this is somewhat similar to the previous suggestion. Contracts that are now not candidates for 8(a) awards due to size or complexity could be set-aside or limited exclusively to firms that would agree to subcontract portions of the project to an 8(a) certified firm. This method would differ from the regular subcontracting goaling process in that to be eligible for a subcontract, a firm must first be certified by the SBA as an 8(a) firm.

Sixth improvement: SBA needs to increase its screening of 8(a) firm proposals and increase its involvement in the administration of contracts. All agencies would benefit from the increased scrutiny of initial proposals by SBA before the proposals are forwarded to the agency developing the contract. This would be particularly useful in eliminating those proposals that are well above the Government estimates.

Continued involvement by the SBA in the administering of contracts is also necessary. Occasionally SBA support diminishes after contract award and contracting officers find they are on their own when problems later develop.

Another area of question for us was suggestions for improvements in other SBA or MBDA programs through private sector models. We feel there is a need for improved compilation and dissemination of information relating to procurements in the under \$25,000 range. This was again a question raised by the previous

panel. The SBA currently manages a program referred to as the PASS system that identifies potential small minority and women-owned businesses and makes this information available to the Government and private sector contracting officials. Inherent problems with maintaining current information, especially when that information pertains to a data base so volatile and dynamic as small and minority business, limits its use among Federal agencies. In GSA, in region 5, we are in the process of instituting a data base comparable to the PASS system but primarily for use by our own contracting officials. It would be composed of small minority and women-owned businesses that have been counseled and screened by our business counselors and therefore more dedicated to our agency needs. By carefully screening potential businesses prior to being placed on the electronic data base, we can help eliminate businesses that have little potential for our types of procurements right at the start of the solicitation cycle, and hopefully significantly reduce the workload of contracting officials in locating potential bidders. This suggestion, as a matter of fact, came out of one of our women-owned breakfasts from the business community.

Other observations on the role of U.S. Government procurement: Many difficulties are encountered by small minority businesses, especially in the areas of funding and the availability of capital. There currently exists a number of procurement assistance activities funded in whole or in part by the Department of Defense, the SBA, and the Minority Business Development Agency, which provide information and assistance to small minority and women-owned businesses.

The development of a means to combine and consolidate these resources, which in theory at least have the potential to conflict, should further enhance opportunities for small minority and women-owned businesses.

I appreciate this opportunity to share some of our experiences and thoughts with the subcommittee. I realize that we here in GSA do not have all the answers, but we feel that we are on the right track in improving preferential contracting opportunities for small minority and women-owned businesses. With your permission, I would now like to turn the microphone over to Ms. Miranda Jackson, who is the Acting Director of the Office of Small and Disadvantaged Business Utilization, for some additional insight into GSA contracting with small minority and women-owned businesses. After Ms. Jackson finishes, I would be pleased to answer any questions you may have.

[The prepared statement of Mr. Kalscheur follows:]

**Statement of
Kenneth Kalscheur
Acting Regional Administrator,
U.S. General Services Administration,
Region 5**

**Before the Subcommittee on
Commerce, Consumer, and Monetary Affairs,
House Committee on Government Operations**

July 12, 1993

Mr. Chairman and members of the Subcommittee:

I appreciate the opportunity to appear before you today to share some of our thoughts pertaining to the problems confronting minority, and woman-owned small businesses and the adequacy of Federal agency activity directed to such businesses. Before I address some of the specific issues regarding contracting opportunities for these types of businesses, I would like to provide some background information about the U.S. General Services Administration.

General Background Information

The U.S. General Services Administration (GSA) can be compared to a major corporation with extensive and diverse product and service lines. In fact, if GSA was ranked among Fortune's 500 largest corporations, we would consistently rank in the top fifty based on total assets. Like many other "businesses," GSA has redefined some of the methods by which we accomplish our mission and subsequently has reduced the number of our employees from 40,000 in 1970 to about 20,000 full time employees today. GSA works with industries and businesses of all types and sizes to provide competitively priced office space, supplies, equipment, and common services needed to keep the Government running smoothly. GSA's mission is to provide timely and quality support to other agencies. Our vision is to become their provider of choice. Our effectiveness enhances their ability to serve taxpayers, while ensuring wise investment of tax dollars. Our support functions are complex, require broad and specialized experience, and are subject to constant technological advances. Today's challenges are similar to those facing many businesses. Our strategic planning process is becoming an increasingly effective tool to respond to rapidly changing conditions and to make sound business decisions for the good of the Government as a whole. Coupled with our strong commitment to quality management, GSA is prepared to continue to provide leadership and innovation in making those decisions necessary to appropriately support the needs of our customer agencies in a redefined Government. This support includes space acquisition and management, retail and wholesale supply sales, fleet management, travel and transportation management, telecommunications and information technology services, asset disposal management, and government-wide policy and oversight. GSA accomplishes its mission through three major procurement activities and through a number of service and staff offices that perform general management, administrative support, and government-wide regulatory functions. Operations are conducted by almost 20,000 employees in 11 geographic regions across the country.

Major Procurement Activities

The **PUBLIC BUILDINGS SERVICE (PBS)** is responsible for planning, acquiring, developing, maintaining, managing, and protecting the buildings and land required by Federal agencies to conduct government business. PBS provides over 245.8 million square feet of work space for nearly 1 million Federal employees nationwide in over 7800 owned and leased buildings. GSA owns and operates over 1,700 of these buildings with over 137 million square feet of space. Over 108 million square feet of space is leased at a cost of more than \$1.5 billion annually, GSA's largest operating expense.

PBS ensures that Federal employees are housed in clean, comfortable, safe, and functional work places. This responsibility includes providing space that is free of health and safety hazards and providing adequate protection and security for Federal employees, the public, and federal property. Major renovations and regular maintenance are normal activities for PBS. Ongoing efforts include searching for ways to optimize space usage, reduce operation costs, and conserve resources, particularly through energy conservation and recycling. PBS acts as a liaison between the Federal Government and State and local governments for public zoning, land-use planning, and environmental issues. As the manager of Federal buildings, PBS also preserves the historic integrity of buildings in its care and fosters and conserves public art in the Federal work place.

Through the **FEDERAL SUPPLY SERVICE (FSS)**, GSA provides Federal agencies worldwide with the supplies, equipment, and services necessary to conduct business. In Fiscal Year 1991, FSS received 6 million requisitions from 36,000 offices and responded with supplies and equipment worth \$1.9 billion. To do this, FSS established 5,560 contracts to provide supply and procurement services, including an additional \$2.4 billion in orders that were placed directly by client agencies with schedule vendors. During the first quarter of fiscal year 1993, Federal agencies purchased supplies and services worth approximately \$806 million through GSA's Federal Supply Schedules. Additionally, \$238 million was ordered for items with a competitive or continuing demand through the Stock Program.

GSA also arranges discounted rates for lodging and transportation for Federal travelers. In managing an interagency fleet of approximately 136,000 vehicles, Maintenance Control Centers in GSA Regional Offices arrange for over \$72 million annually in repairs and services provided by the private sector. In addition, FSS helps Federal agencies dispose of a variety of personal property that is no longer needed. FSS either transfers the items to other Federal agencies, donates them to State agencies, or sells them to the public.

The **INFORMATION RESOURCES MANAGEMENT SERVICE (IRMS)** ensures that Federal employees have access to state-of-the-art local telecommunications services. IRMS provides local and long-distance telecommunications service to over 1.5 million Federal users, enabling them to communicate with each other and the public. Using advanced digital capabilities to connect telephones, computers, fax machines, and video

conference facilities, GSA supports communications in day-to-day operations and emergency situations. IRMS also sets policy for the acquisition of information technology government wide, assists agencies purchasing automation and computer equipment, and offers a training program for executives responsible for all phases of systems procurement.

Procurement Methods and Preferential Procurement Programs

The preferred method for Government procurement is by full and open competition. It is to the Government's advantage that all responsible suppliers are given an equal opportunity to compete. GSA like all federal procuring activities, publicizes its intention to buy through the posting of solicitations in public places, announcements in the Commerce Business Daily and by sending solicitations to business firms whose names are on applicable mailing lists. Within the framework of full and open competition as well as statutory provisions such as Public Law 95-507, GSA attempts to promote the participation of certain segments of the business community through our preferential procurement programs.

- **Small Business Set-Asides** are authorized by the Small Business Act of 1953. It requires agencies to limit competition of certain contracts to qualified "small businesses." Qualification as to small business status is determined by the Small Business Administration (SBA). Since the law requires that awards be made at competitive prices, set-asides are applied only when enough small businesses are expected to bid so that adequate competition will be assured.
- **Socially and Economically Disadvantaged Businesses.** Section 8(a) of the Small Business Act, as amended by Public Law 95-507, authorizes the SBA to enter into contracts with other Federal agencies for goods and services. In turn, SBA subcontracts the actual performance of the work to socially and economically disadvantaged small businesses that have been certified by SBA as eligible and competent to receive these contracts. SBA may also provide management and technical support to these firms. The advantage of this program is that it permits socially and economically disadvantaged companies to receive Government contracts on a noncompetitive basis. However, due to the lack of competition, 8(a) procurements are subject to additional internal audits and reviews that tend to slow down the process and inhibit maximum utilization of the program.
- **Labor Surplus Area Set-Asides** restrict competition to firms that agree to perform most of the contract work in areas having higher than average unemployment, even if their headquarters are not located in these areas. Contracts are set aside when enough qualified firms are expected to bid so that awards will be made at fair and reasonable prices.

- **Subcontracts for Small and Small Disadvantaged Businesses** Federal agencies are required to make certain their prime contractors establish goals for awarding subcontracts to qualified small and disadvantaged firms. Each prime contract with a total value of \$500,000 or \$1,000,000 for construction awarded to a large business must specify the percentage goals proposed for subcontracts with such firms and a description of how those goals will be achieved.
- **Woman-Owned Businesses.** Executive Order 12138 of May 18, 1979, requires Federal agencies to take affirmative action in support of businesses owned by women. To carry out this order, agencies make a special effort to advise women of business opportunities, and eligible woman-owned firms are strongly encouraged to participate.
- **Vietnam Veterans.** Although there are no statutory requirements for awarding contracts to businesses owned by Vietnam veterans, Federal agencies actively encourage them to seek Government contracts and to participate, where eligible, in some of the other preferential programs such as small business or labor surplus area set-asides.
- **Mandatory Source Programs.** If they are offered at competitive prices, the Federal Government must purchase certain goods and services from workshops for the blind and severely handicapped. The Committee for Purchase from the Blind and Other Severely Handicapped, and the Federal Prison Industries are the two mandatory sources within this program.

Region 5

GSA Region 5 consists of the states of Illinois Indiana, Michigan, Minnesota, Ohio, and Wisconsin. We are responsible for the construction, maintenance, security, repair and general upkeep of GSA owned federal office buildings in these states. We also contract to lease office space when there is not enough GSA-owned vacant space available. During the fiscal year 1991, we procured about \$270 million worth of services here in Region 5. Of this, about 66% went to small businesses, about 3.8% went to minority businesses (both 8a and non-8a awards), and about 0.6% to woman owned businesses. In FY92, we purchased a total of about \$226 million in services, of which about 59% went to small businesses, about 10.9% to minority businesses, and about 2.1% to woman-owned businesses. The most current figures (6/15/93) for FY93 indicate that we have awarded \$97 million in prime contracts thus far in FY93, of which \$70 million (72%) went to small businesses, \$18.3 million (18.8%) was awarded to minority businesses (8a and non-8a combined) and \$3.2 million (3.29%) to woman-owned businesses.

The significant improvements in preferential contracting during FY92 and FY93, for the most part, can be attributable to a heightened awareness toward the needs of small minority, and woman-owned businesses on the part of top management within GSA. For example our national management information system known as EXECUTRAC began

tracking performance in preferential contracting solely by means of the automated Government Procurement Data System (GPDS) with the beginning of FY92. In addition, regional offices were asked to establish special task forces or quality initiative teams to facilitate and encourage regular dialogue among the various contracting activities and the staff offices that monitor and report contracting activities (Regional Acquisition Management Staffs{RAMS} and Business Service Centers{BSC}). Here in Region 5 this special task force was coordinated jointly by the Directors of RAMS and BSC, and met with key officials of our regional contracting activities on a biweekly or monthly basis to plan strategies to improve preferential contracting performance. Some of the major achievements of this task force were to 1) increase 8(a) contracting awareness within contracting offices by inviting Small Business Administration (SBA) representatives to participate in some of our regular task force meetings and to conduct formal training sessions specifically on the 8(a) program for our regional contracting officials, 2) the BSC was provided access to the automated GPDS reporting system to enable an independent ongoing review of preferential contracting accomplishments in relationship to the planned objectives,(For the first time then, preferential contracting accomplishments could be tracked against the plan on a daily or weekly basis rather than quarterly as was the case under the previous manual system of reporting); 3) the increased involvement of field offices in procurements under \$25,000; 4) the establishment of targeted outreach activities in the form of breakfast conferences for woman-owned and veteran-owned businesses; and 5)the elevation of preferential contracting reporting as a regular agenda item on the regional general management review meetings.

Specific issues and questions of the subcommittee

1. **Extent of Small Business Contracting and Subcontracting** *Please provide the following regional data, GSA Region Five Public Building Service's (a) Procurement and contracting goals for FY 91, 92 and 93, and (b) the numbers and total \$ values of 8(a) contracts broken down by construction and services.*
 - (a) The tables and graphs illustrated in appendix A. depict the regional goals and accomplishments for the fiscal years 1991, 1992, and through June 15, 1993. All our goals are based on a % of total prime contract dollars awarded during the period. The tables depict the % of accomplishments in relationship to the goals as well as the total dollar value of contracts awarded during the three fiscal years.
 - (b) The breakdown of 8(a) contracts by construction and services are illustrated in Appendix B. Region 5 does not have major procurement responsibilities for any supplies, therefore there were no 8(a) supply contracts during FY91, 92 or 93.
2. **Establishment & Monitoring of Goals.** *Please (a) describe (i) how GSA goes about both establishing and implementing the target goals referenced in #1, (ii) the specific difficulties which GSA encounters in doing so, providing an example, and (iii) how GSA negotiates with prime contractors and then monitors various small business subcontracting goals or requirements in major building projects, and could such (or*

other GSA) practices serve as a model for other agencies? (b) Are any statutory changes needed which would help increase the number of such contracts?

(i) Preferential contracting goals are consolidated from each of the procurement activities in the Business Service Center. The goals are primarily based on historical accomplishments and projections of expected procurements in the coming fiscal year. These goals are formulated during the third quarter of the current fiscal year, so that the basis for projections is regional performance during the most recent complete fiscal year. For example, FY93 goals (formulated during the 3rd quarter, FY92), were based primarily on FY91 accomplishments in conjunction with projections of expected procurements during FY93. Individual Service goals are then consolidated in the Business Service Center and submitted to GSA's Office of Small and Disadvantaged Business Utilization in Washington D.C. Here each regional submission is consolidated into a national projection which is then negotiated with the Small Business Administration. On the basis of these negotiations, as well as the Administrator of GSA's national initiatives, goals are established for the agency and then broken down for each Service and Region. Final goals are then distributed to the Services and regional Business Service Centers and are then monitored in the procurement activities and the Business Service Centers.

Here in Region 5, preferential contracting goals are regularly monitored by the Business Service Center and addressed at quarterly management reviews. If potential shortfalls are discovered, special meetings are convened of members of the procurement task force. Potential shortfalls or disturbing trends are also brought to the attention of the Regional Administrator (RA) and then to Assistant Regional Administrators at the weekly RA's staff meeting. On-line access to the GPDS procurement reporting system, by the BSC facilitates the early detection of potential shortfalls and significantly increases the ability to initiate prompt action to resolve or diminish the problem. As an example, a potential shortfall in awards to woman-owned businesses early during FY93 led to the establishment of two procurement conferences in Chicago geared specifically toward woman-owned businesses. A total of about 150 woman-business owners attended these conferences and although it is not possible to attribute the improvement in awards to women business owners directly to the conferences, regional performance has significantly improved since the conferences took place.

(ii) From a regional perspective, if there is a weakness in the goaling system, it may be perceived as one of timeliness. Because of the one-year time lag in goal establishment (if prior fiscal year data is the basis) the system has a built-in time delay. Projections based on the first two quarters of the current year when establishing goals, do not provide the necessary accuracy to insure realistic objectives. However, it is difficult to imagine a system that could use the most recent complete fiscal year data to project the upcoming fiscal year without delaying the assignment of goals until well into the year.

(iii) Under normal circumstances, the apparent successful offeror is required to submit a subcontracting plan and then only after conclusion of the negotiations. In the two largest of our most recent major construction projects however, we have tried to emphasize the

importance of an aggressive subcontracting plan by asking for the plans from *each* offeror, in the beginning of the negotiation cycle. For example, in the Metcalfe Building in Chicago, we emphasized the importance of a significant subcontracting program by first of all, making a statement to that effect right in the Solicitation for Offers and requiring that all offerors submit subcontracting plans with their initial proposal, so that they could be the subject of our negotiations. By requiring plans up front, we believed that offerors would be more inclined to develop aggressive goals, especially for minority and woman-owned businesses. We also contracted (under the 8a program) for the compilation of a directory of minority and woman-owned small business potential subcontractors that was distributed to all parties who expressed an interest in submitting a proposal on the project.

The developer, as part of its subcontracting proposal, offered "minimum guaranteed" levels of subcontracting and placed up to \$1 million of its compensation at risk if the guarantees were not met. The goals and minimum guarantees of the developer's subcontracting plan for the Metcalfe building were:

	<u>GOALS</u>	<u>MIN. GUARANTEE</u>	<u>ACHIEVEMENTS</u>
Small (majority owned) Business	10%	10%	13.1%
Small Disadvantaged Business	40%	28%	30.3%
Woman-Owned Small Business	10%	7%	7.5%

Out of the total project cost of \$153 million, more than \$101 million worth of subcontracts were awarded for this project. Of this amount, more than \$51 million went to all types of small businesses including \$38 million to disadvantaged and woman-owned firms. The subcontracting and affirmative action programs for the project were monitored through the Chicago Urban League that had an on-site representative for the project. GSA also had a representative monitoring subcontracting compliance on a continuous basis.

In the Detroit IRS Building project, we also required subcontracting plans from each offeror prior to negotiations. In addition we initiated some activities that were not done for the Metcalfe Building in Chicago. For instance, we held a type of "town meeting" session between all potential developers and small, minority, and woman-owned businesses interested in becoming a subcontractor on the project. We used this forum to introduce key federal officials from GSA, IRS and the Department of Commerce's Minority Business Development Agency, and to explain the project and our philosophy and expectations regarding significant subcontracting goals (for developers) and opportunities (for subcontractors). All small business attendees were listed in a directory put together by our regional BSC that was then distributed to each potential developer to be used to establish relationships with potential subcontractors prior to submission of their offers. We feel these efforts communicated to all potential developers our commitment to realistically aggressive subcontracting goals and our expectations that the subcontracting plan should be given the kind of attention that would maximize the opportunities for small, minority, and woman-owned businesses, and should not be considered as an afterthought in the process of negotiations.

As was the case in Chicago, the Detroit project manager, has negotiated an extensive reporting system on the part of the developer to insure the goals are achieved. For example, monthly meetings between GSA and an independent consulting agency hired by the developer, have been established to review the progress of the hiring of small, small disadvantaged, and woman-owned businesses. GSA will also hire a separate independent contractor to monitor the developer's compliance with all aspects of the subcontracting plan. Additionally, the developer will be monitored for adherence to affirmative action goals and local minority requirements mandated by the City of Detroit. The subcontracting goals that have been included as part of the Detroit IRS project are as follows:

	<u>GOALS</u>
Small (majority owned) Business	10%
Small Disadvantaged Business	30%
Woman-Owned Small Business	7%

Despite the extra costs involved in contracting for independent studies and participating in regular progress review meetings, we feel the resulting benefits far outweigh the extra costs. Therefore, some of the initiatives we developed for these two projects could be adopted by other federal agencies to increase the participation of the targeted business groups in major construction projects.

(b) (Statutory Changes) One statutory change that would have a major impact on increasing the participation of small, minority, and woman-owned businesses as subcontractors on major federal construction projects would be to eliminate some of the restrictions currently hindering an aggressive protégé-mentor program on the part of the developer. Some problems we experienced with the Chicago project suggests that an aggressive mentor program whereby the developer establishes a close relationship with a small or emerging small business can be detrimental if that relationship is seen as adversely affecting the independence of the protégé. Current guidelines are not sufficient to completely take advantage of the many benefits accruing from a well established, aggressive mentor program.

3. Extent of Participation In, Concerns about, and Suggestions for Section 8(a)

Program: *Please discuss any concerns about or problems with the SBA's Section 8(a) program, including how it is utilized. (a) Describe the difficulties in utilizing section 8(a) contracts for construction (including repairs) and other contracts, including any requirements and delays arising out of using sole source contracts, any problems with 8(a) firms which SBA could prevent or help resolve, and the adequacy of SBA staffing in terms of quality and quantity; (b) Suggest improvements in procedures, policy, or staffing which would help overcome these problems (including 8(a) thresholds on competitive contracts.*

(a) Because 8(a) contracts are considered sole source procurements, any price proposal in excess of \$500,000 must be the subject of an internal GSA audit. This audit requirement is often not compatible with our need to award most contracts during the fiscal year for which the funding has been programmed. It has been our experience that these audits add a minimum of three months to our procurement lead time, particularly if the firm being audited has not established a satisfactory cost accounting system, or if the company records are not completely in order. These are not uncommon problems with small construction companies. Therefore any procurements that are over \$500,000 and are time-critical already have two strikes against them in consideration for potential 8(a) participation.

(b) For GSA to maximize our participation in the 8(a) for construction contracts, the present Small Business Administration policy that restricts competitive solicitations to those over three million dollars must be modified. Specifically, a reduction from three million dollars to \$500,000 as the competitive threshold, would significantly enhance the ability of our construction contracting officials to set aside procurements for 8(a) participation.

(c) Indicate the kinds of business development, technical, financial, marketing, or other assistance which the SBA could optimally render either to 8(a) firms or to the GSA, which would make the program work more effectively and enable it to increase the number of contracts.

Business Development Expense (BDE) funds were available through SBA early in the program, but are no longer available. The BDE funds were controlled by SBA and used by them to fund for disparities between the agency cost estimates and the best offer negotiated with the 8(a) firms. For example, if the estimate for a project was \$100,000 but the best negotiated price with the 8(a) firm was \$120,000, the price would not be considered either fair and reasonable or acceptable unless SBA had the funds available and transferred to GSA, the additional \$20,000 or portion of that amount if agreed upon by GSA. When BDE funds were available, a contract could be awarded at a fair and reasonable cost to GSA and the 8(a) firm would receive an award that it might not otherwise have received under a pure competitive basis.

Another suggestion for improvement might be to structure the 8(a) program in a similar manner as the current small business and labor surplus area set-aside programs. In such a scenario, SBA would certify a firm as minority owned and any firm so certified would then be eligible to compete for procurements specifically set-aside for minorities. Although this can be considered a radical change, it should both enhance the participation of minority businesses as well as greatly simplify the current 8(a) process.

An increase minority business participation in government contracts may also be achieved through subcontracting. If a special "8(a) Subcontract Set-aside" program were established, contracts that are not now candidates for 8(a) award due to size or complexity, could be "set-aside" or limited exclusively to firms that would agree to

subcontract portions of the project to 8(a) certified firms. This method would differ from the regular subcontract goaling process in that to be eligible for a subcontract, a firm must first be certified by the SBA as an 8(a) firm.

(d) Discuss SBA's optimal role in the process, and specify which objectives of the 8(a) program should be given priority.

For our purposes, the SBA, when it certifies a business as an 8(a) firm, provides us a much needed service by identifying and subsequently attesting to the validity of a minority firm. Once this validity is established, it would be to our benefit as a major procurement activity to be able to set-aside procurements exclusively for these firms if that change could be enacted. Should an 8(a) set aside program prove impractical or unobtainable, the reinstatement of BDE funds as discussed earlier should be given top priority.

4. Suggested Improvements in other SBA or MBDA programs or private-sector models: *What, if any, other changes would improve the delivery of services or the effectiveness of other programs operated by the SBA or the Commerce Department's Minority Business Development Agency? Is there anything in the private sector which could serve as a model for these or other programs?*

There is a need for improved compilation and dissemination of information relating to procurements in the under \$25,000 dollar range. The prevalent method of securing contractors for jobs under \$25,000 is to rely on a hand list or some other source such as the yellow pages in order to identify small or minority businesses which may compete. The SBA currently manages a program referred to as the PASS system that identifies potential small, minority and woman-owned businesses and makes this information available to government and private sector contracting officials. Inherent problems with maintaining current information especially when that information pertains to a database so volatile and dynamic as small and minority business limits its use among federal agencies. If the SBA was able to receive the necessary resources to expand and at the same time increase the accuracy of the PASS system, it would significantly enhance the capabilities of many firms that are not now on any "hand list" to become aware of potential bidding opportunities. Here in GSA, Region 5, we are in the process of instituting a database comparable to the PASS system but primarily for use by our own contracting officials. At our small, minority, and woman-owned procurement conferences we have noticed a large pool of firms that are primarily interested in small procurements and do not have the capabilities or desire to bid on large procurements. Until now, we have provided a directory of federal agencies that contracted for small procurements to these businesses and advised them to contact these agencies directly to have their names placed on each agency's "hand-list." As an alternative, we are in the process of taking a proactive approach with these types of businesses by establishing an electronic bulletin board that will be used by our contracting officials when solicit bidders for procurements under \$25,000. By carefully screening potential businesses by our BSC prior to being placed on the electronic database, we can help eliminate businesses that have little potential for our

types of procurements right at the start of the solicitation cycle and hopefully significantly reduce the workload of contracting officials in locating potential bidders.

5. Observations on role of U.S. Government procurement. Please set forth any observations or suggestions on how other Federal agencies, as well as GSA, could increase the number and amount of contracts with such businesses.

In addition to the difficulties encountered by small, minority, and woman-owned businesses in the identification of bidding opportunities under \$25,000, there is also a need to address the difficulties they encounter in the \$25,000 to \$100,000 range. Even though each federal agency publishes its requirements in the Department of Commerce publication *Commerce Business Daily*, it is very difficult for small or medium-sized companies to get good instructional or bidding assistance in a timely manner. This is particularly true for companies that are located outside the major procurement areas such as Chicago. Furthermore, many government agencies, including GSA, generally have a limited data base profile to do source selection in procurements involving telecommunications, automated data processing services, software design, real estate, and architecture and engineering services.

In the private sector, the banking industry often does not fully understand the federal procurement process and therefore does not provide the type of credit required by small and minority companies based on the soundness of cash receivables from the federal sector.

One possible solution is the creation of a government wide network of "Federal Procurement Business Centers" which on a regional basis would serve the small, minority, and woman-owned businesses more thoroughly than is now possible. Each regional location would be staffed by personnel from the various contracting and business assistance activities currently existing within each major federal procurement activity. GSA, SBA, the Environmental Protection Agency, the Department of Defense, the Minority Business Development Agency, and the Department of Veteran Affairs, could serve as lead agencies and staff each location with procurement analysts, contract administration specialists, loan assistance personnel (possibly from the private banking sector), plus personnel familiar with counseling, computers, and business planning. Funding for these Centers would be provided by Congress and would be on a yearly basis depending on the results and benefits achieved within the program during that year. Positions could also be developed for student interns in business administration, so as to develop a bond between the federal sector and the academic community on a "business" front. The combination of federal, private and academic resources to improve the accessibility of federal contracting to small and emerging small businesses should result in increased opportunities for these smaller companies to share in the federal contracting dollar.

I appreciate this opportunity to share some of our experiences, thoughts and in some cases perhaps, wishful thinking with this subcommittee. I realize that we here in

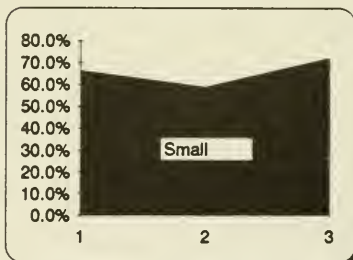
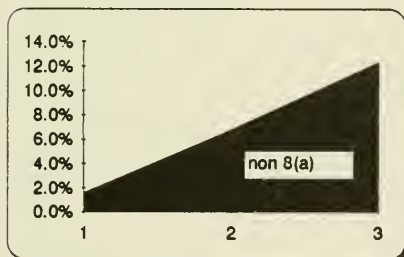
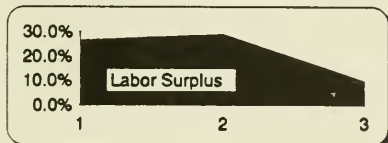
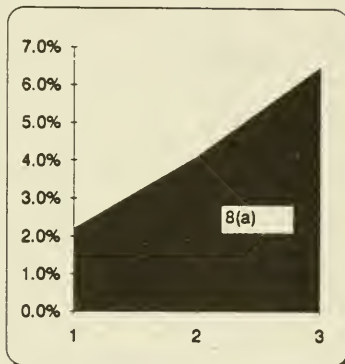
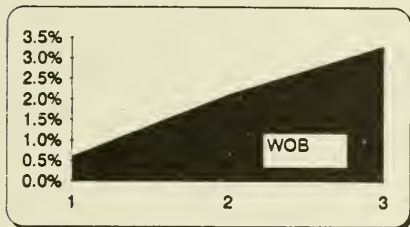
GSA do not have all the answers, nor do we know where to begin in some instances, but we feel that we are on the right track to improving preferential contracting opportunities for small, minority, and woman-owned businesses. I would be pleased at this time to answer any questions you may have regarding this issue.

Appendix A

Region 5 goals and accomplishments, FY 91, 92 and 93

	Accomplishments			Goals		
	FY91	FY92	FY93	FY 91	FY92	FY93
Woman-Owned Business	0.6%	2.1%	3.3%	1.3%	0.9%	0.5%
8(a) Awards	2.2%	4.1%	6.5%	4.0%	3.8%	2.1%
Non 8(a) (competitive) Awards	1.6%	6.8%	12.3%	3.0%	4.0%	4.2%
Small Business	66.1%	58.9%	72.1%	67.2%	70.8%	55.8%
Labor Surplus Area	26.6%	29.0%	9.7%	25.0%	5.0%	11.5%

Accomplishments

**Dollar Values (In \$000)**

	FY91	FY92	FY93 (to 6/15/93)
Women-Owned Business	\$1,740	\$4,829	\$3,204
8(a) Awards	\$5,874	\$9,390	\$6,322
Non 8(a) (competitive) Awards	\$4,383	\$15,432	\$11,990
Small Business	\$178,377	\$133,521	\$70,148
Labor Surplus Area	\$71,763	\$65,666	\$9,176
Total Awards	\$269,824	\$226,778	\$97,357

Appendix B



8(a) Contracts established by Region 5 FY91-93

	Building Services		Construction	
	<u>Number</u>	<u>Dollar Value</u>	<u>Number</u>	<u>Dollar Value</u>
FY 91	11	\$5,823,000	8	\$51,000
FY92	16	7,254,000	14	2,136,000
FY93	13	6,254,000	11	68,000

Mr. SPRATT. Thank you. Ms. Jackson.

Ms. JACKSON. Thank you. Mr. Chairman, Hon. Congressman Rush, thank you for allowing me to appear before you today and address GSA's agencywide initiatives for improving the small business program.

My office has nationwide responsibility for the agency's small business program, and I assure you that GSA is committed to the small business program. We spend billions of dollars annually with small businesses. We also spend millions of dollars with minority and women-owned businesses.

Our new management team at GSA, Roger Johnson and Julia Stash, has placed a high priority on the agency's small business program. In fact, our new Deputy Administrator, Julia Stash, is responsible for a current initiative we have to establish a mentor/protege pilot program at GSA. Our program will be very similar to DOD's program. It will be on a much smaller scale. We are currently working out the details, and we expect this program to be in place within the next 4 to 6 months. We will be looking at our prime contractors to act as mentors to minority and women-owned businesses.

We are placing a greater emphasis on our subcontracting plans submitted by our prime contractors. We are now conducting subcontracting program reviews to ensure that our prime contractors meet the goals that they have established for doing business with small minority and women-owned businesses.

My office establishes the agencywide goals for doing business with small business, minority businesses, and Section 8(a) procurements. Our goals are based on historical data on anticipated procurements. We also take into consideration the governmentwide goals established by Public Law 100-656. We not only try to meet the 20-percent goal established for small businesses, but we try to exceed it. In fiscal year 1992, 42 percent of our dollars went to small businesses. As far as small disadvantaged businesses, the governmentwide goal is 5 percent. In fiscal year 1992, 8 percent of the agency's total procurement dollars were awarded to minority businesses.

Two years ago we made a commitment to double our dollars under the Section 8(a) program. We have doubled our dollars. In fiscal year 1992, we did \$142 million under the 8(a) program.

GSA has an aggressive outreach program. We sponsor minority business breakfast meetings in 21 major metropolitan cities, including Chicago. We also sponsor at least two small business conferences in various parts of the country annually. We sponsored a conference in Phoenix, AZ. We also sponsored a conference in Chicago and in Detroit. Our next conference will be held in Los Angeles.

GSA also has 12 Business Service Centers, and we have one here in Chicago. Our Business Service Centers participate in conferences, workshops, and seminars—probably over 300 annually.

GSA publishes all types of documents to assist the small business community in their marketing efforts. We just updated our forecasts of GSA's contracting opportunities. Small businesses can use this document to market GSA for business. Our publication covers a 3-year period. We update it annually and soon it will be

on an electronic bulletin board, so if a company has a modem, they will be able to call up and get online information.

We also publish a subcontracting directory twice a year. This document will also be on the electronic bulletin board and companies will have online information.

We just published a small purchase handbook because many of our procurements are \$25,000 and under. We spend over \$400 million annually for the maintenance and repair of our Federal buildings. Businesses can use this document to market our building managers. We plan to publish a simple document in Spanish for the Spanish-speaking community.

GSA has a \$2 billion subcontracting program. Our prime contractors award approximately 35 percent of their contracts to small business, 6 percent to minority businesses, and approximately 3 percent to women. We are looking to increase the dollars with minorities and women. We have an internal goal of 10 percent for minorities and 5 percent for women.

GSA is also looking to conduct what we call sensitivity training for our 3,000 contracting officers nationwide. This is a new initiative and will probably start sometime in October.

We work very closely with SBA and the Minority Business Development Agency to ensure that the agency awards a fair proportion of its contracts to small minority and women-owned businesses.

I will be glad to answer questions after this panel is over. Thank you.

Mr. SPRATT. And we will proceed with the rest of the panel, and then we will put questions to you as a whole panel.

The next witness is Scott Denniston of the VA's Office of Small and Disadvantaged Utilization.

STATEMENT OF SCOTT DENNISTON, DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION, DEPARTMENT OF VETERANS' AFFAIRS, ACCOMPANIED BY THOMAS COOPER, DIRECTOR, VA NATIONAL ACQUISITION CENTER

Mr. DENNISTON. Good afternoon, Mr. Chairman, Congressman Rush. On behalf of Secretary Jesse Brown, it is my privilege to be here today to discuss this important issue.

The Department of Veterans' Affairs, in order to encourage participation of small business in the acquisition process, has instituted specific practices which have resulted in an increase in small business awards. In fiscal year 1992, 37 percent of our total procurement was awarded to small business, in comparison with a governmentwide average of approximately 20 percent.

We actively educate small businesses through conferences and seminars, publish comprehensive forecasts of contracting opportunities nationwide, publish a vast array of how to information, "How to do business with VA," and we stress small business to the VA contracting personnel in a number of areas.

In the area of subcontracting, we have adopted a practice of conducting small and small disadvantaged and women-owned business workshops for major construction projects. These workshops provide an excellent opportunity for small business entrepreneurs to have an awareness of the planned project prior to any initial bid-

ding or before any construction has begun. We also provide large businesses with potential small and small disadvantaged business and women-owned business subcontractors, and review subcontractor plans for regulatory compliance. Once a major project award is made, the office that I direct is responsible for assisting the contracting officers to monitor subcontract plan performance throughout the life of the contract.

Analysts from my office conduct socioeconomic program compliance reviews of VA acquisition activities. They review procurement actions to verify that they are conducted in compliance with statutory, regulatory, and departmental policies. They conduct training on the socioeconomic programs to assure that contracting personnel are small business minded.

Mr. Chairman, you will note in the documents that I have submitted that the participation of minority-owned firms in our subcontracting program has increased dramatically from \$30 million in fiscal year 1991 to over \$87 million in fiscal year 1992. Small businesses have also benefited by our outreach efforts. Small business subcontracting increased from \$349 million in fiscal year 1991 to \$610 million in fiscal year 1992.

Another indicator of the adequacy of our program efforts is the dollar increase in contract awards to small business. In fiscal year 1991, we awarded just over \$1 billion to small business and in fiscal year 1992 small business received almost \$1.5 billion. Awards to women-owned businesses totaled \$82 million in fiscal year 1992, an increase of 22 percent over the \$67 million awarded in fiscal year 1991.

I believe the program areas I have described reflect a good faith effort on the part of VA to increase the participation of small businesses in our overall contracting program. However, there is a downside. Awards to small disadvantaged businesses are not at the appropriate level. A positive step has been taken to correct this deficiency. The Secretary of Veterans' Affairs has issued a wake-up call to all of VA's contracting activities. On March 10, 1993, the Secretary issued a directive to key VA officials regarding his personal commitment to increase procurement opportunities for minority-owned and women-owned businesses. I have attached a copy of that directive to the written testimony.

Now let me briefly touch upon the specific issues that you have raised. First, goals and accomplishments.

Attached for the record is the report of VA's goals and accomplishments for 1991, 1992, and the first half of fiscal year 1993. Also attached is the Department's report for fiscal years 1991 and 1992 on the number of dollars spent in each major category under the 8(a) program. The reports on the contracts awarded by the Department under the 8(a) program for the first half of fiscal year 1993 and those awarded by the National Acquisition Center for fiscal years 1991, 1992, and the first half of 1993 I brought with me this morning and they are attached to the testimony.

In establishing and implementing the Department's goals, we first identified categories of procurements for which small business set-aside consideration is not feasible. Such categories include utilities, construction projects in excess of \$10 million, design contracts for these projects, and National Acquisition Center centralized con-

tracts. We also use the basis of projected requirements and estimated budget, past accomplishments, and one-time unique awards in certain categories. We establish what is considered reasonable and achievable goals for the Department. We also identify requirements early in the planning stage for suitability for set-aside or for placement under the 8(a) program.

Our goals are then negotiated with the Small Business Administration and are passed on to each VA contracting activity.

Most Federal agencies use the time-tested approaches such as attending small business conferences, conducting workshops, creating awareness of marketing opportunities, relying on SBA's procurement automated source system, the PASS system, and self-marketing by small business entrepreneurs. VA also uses these same approaches. We also conduct veteran-owned business conferences that are directed to veterans in business, which includes disabled veterans. In furtherance of this initiative we have established goals for veterans and disabled veteran-owned small business with each procurement activity within VA.

These approaches work, but not as well as educating the Federal contracting officer regarding their responsibilities to the socioeconomic program, including the 8(a) program and the capabilities of small business. Also, the small business owner must be educated regarding the contracting officer's responsibilities as described in the Federal Acquisition Regulation; issues of quality, timeliness and capabilities to perform. In my opinion, there must be a balance in training as well as business development and monitoring to ensure program successes.

My comments regarding the 8(a) program are based on VA's experience nationwide. The Chicago area is not unique in the administration of the 8(a) program. The VA has had far more successes than failures in the 8(a) program. Traditionally, VA makes its 8(a) goal through the award of construction contracts. However, we are working to change this. Just recently, the VA National Acquisition Center awarded a \$2.6 million 8(a) contract to Dakota Tribal Industries for interment flags. The Hines Supply Depot just outside of Chicago here is currently negotiating a security guard contract. VA is beginning to look beyond construction for goal accomplishment. Our successes are directly attributable to the dedicated business opportunity specialists of SBA, VA's contracting officers, and the 8(a) contractors themselves. Over the past 2 years, SBA has been very helpful in providing 8(a) firms on very short notice.

VA has, however, experienced some difficulties with the 8(a) program. Some of these are: One, volume buying at quantities beyond the capabilities of the 8(a) firms; two, high-cost products that 8(a) firms do not generally market because of the high-capital investment required; three, pricing prevents entry into the depot system; four, 8(a) firms are unable to provide performance and payment bonds; five, 8(a) firms have cash-flow problems; and six, VA and 8(a) firms in some instances are unable to negotiate what are considered fair and reasonable prices for all parties.

For the most part, SBA has been helpful and knowledgeable with few unreasonable delays. However, we believe SBA's problems include: Identifying 8(a) firms with the qualifications to perform, including the ability to bond; slow response time to offering letters;

slow in finalizing contract documents; and we have a real problem with some of the district offices in SBA with their new automated telephone system where you do not get to talk to a real human body.

We believe deficiencies also exist in SBA's business development, technical, financial, marketing, and other assistance to 8(a) firms. A lack of funding to provide loans to 8(a) firms for increased capacity, a lack of assistance in developing pricing during negotiations, and business development specialists have far too many 8(a) firms to service.

To more effectively administer the 8(a) program, we believe SBA must: One, visit the buying offices to learn of opportunities and discuss the capabilities of the local 8(a) portfolios; two, place a high priority on contract awards and responses to search letters in order to meet agency deadlines; three, recommend 8(a) firms located in the local area and within the field of expertise that is required on the particular contract; four, participate more in the preparation of the cost proposals required for negotiations; five, take a more active role in the administration of the 8(a) contract after award; six, provide a copy of the 8(a) portfolio to each buying office so that we know what the capabilities of the 8(a) portfolio are; seven, provide a simplified procedure for awarding contracts within the small purchase limitations; and eight, allow competition for procurements over \$500,000 when two or more 8(a) firms are capable of performing, thereby eliminating the need for audit and reducing the time required to execute a contract.

To the contracting officer, the 8(a) program is a contracting program. To SBA, the 8(a) program is a business development program. To adequately implement the 8(a) program, we believe it must be both a contracting and a business development program with the contracting officer and the SBA representative both clearly aware of the other's perspective.

The role SBA would play in the development of firms would depend on the particular firm. Some would need more monitoring and assistance than others. The optimum participation would be at the level whereby problems were handled in a proactive mode rather than a reactive mode. SBA business opportunity specialists should have a caseload that gives them the time to carefully examine each company so that only firms that can successfully perform are referred to contracting officers. This would require a more intense business development effort than is currently being expended.

Mr. Chairman, this concludes my oral remarks and I would be pleased to answer any questions at the end of the testimony.

Mr. SPRATT. Thank you, Mr. Denniston.

Next is Ms. Jane Palsgrove Butler. Oh, Mr. Cooper, did you want to say something?

Mr. COOPER. No, I was just indicating that my comments are incorporated into Mr. Denniston's.

Mr. SPRATT. I beg your pardon. OK.

[The prepared statement of Mr. Denniston follows:]

STATEMENT OF

SCOTT F. DENNISTON

DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED
BUSINESS UTILIZATION

U.S. DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE

SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY
AFFAIRS

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

U.S. HOUSE OF REPRESENTATIVES

JULY 12, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM SCOTT DENNISTON, DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION FOR THE DEPARTMENT OF VETERANS AFFAIRS.

MR. CHAIRMAN, I AM PLEASED TO BE HERE THIS MORNING TO DISCUSS THE VA ACTIONS WITH RESPECT TO THE SMALL BUSINESS PROGRAM AND THE PROBLEMS CONFRONTING MINORITY AND WOMEN-OWNED BUSINESSES. IN ADDITION, I WILL TOUCH UPON OUR EXPERIENCE WITH THE SECTION 8(A) PROGRAM.

AS YOU HAVE REQUESTED MR. CHAIRMAN, WE ARE SUBMITTING OUR WRITTEN TESTIMONY FOR THE RECORD AND I WILL ATTEMPT TO SUMMARIZE THE MAJOR POINTS.

THE DEPARTMENT OF VETERANS AFFAIRS, IN ORDER TO ENCOURAGE THE PARTICIPATION OF SMALL BUSINESS IN THE ACQUISITION PROCESS, HAS INSTITUTED SPECIFIC PRACTICES WHICH HAVE RESULTED IN AN INCREASE IN SMALL BUSINESS AWARDS. IN FISCAL YEAR 1992, 37 PERCENT OF TOTAL PROCUREMENT LESS GSA FSS WAS AWARDED TO SMALL BUSINESS, IN COMPARISON TO THE GOVERNMENTWIDE AVERAGE OF APPROXIMATELY 20 PERCENT.

FOR EXAMPLE, WE HAVE ADOPTED A PRACTICE OF CONDUCTING SMALL, SMALL DISADVANTAGED AND WOMEN-OWNED BUSINESS WORKSHOPS FOR MAJOR CONSTRUCTION PROJECTS. THESE

WORKSHOPS PROVIDE AN EXCELLENT OPPORTUNITY FOR SMALL BUSINESS ENTREPRENEURS TO HAVE AN AWARENESS OF THE PLANNED PROJECT PRIOR TO ANY INITIAL BIDDING OR BEFORE ANY CONSTRUCTION HAS BEGUN. WE ALSO PROVIDE LARGE BUSINESSES WITH POTENTIAL SMALL AND SMALL DISADVANTAGED BUSINESS SUBCONTRACTORS AND REVIEW SUBCONTRACTING PLANS FOR REGULATORY COMPLIANCE. ONCE THE MAJOR PROJECT AWARD IS MADE, THE OFFICE THAT I DIRECT IS RESPONSIBLE FOR ASSISTING THE CONTRACTING OFFICERS TO MONITOR SUBCONTRACTING PLAN PERFORMANCE.

ANALYSTS FROM MY OFFICE CONDUCT SOCIOECONOMIC PROGRAM COMPLIANCE REVIEWS OF VA ACQUISITION ACTIVITIES. THEY REVIEW PROCUREMENT ACTIONS TO VERIFY THAT THEY ARE CONDUCTED IN COMPLIANCE WITH STATUTORY, REGULATORY, AND DEPARTMENTAL POLICIES. THEY CONDUCT TRAINING ON THE SOCIOECONOMIC PROGRAMS TO INSURE THAT CONTRACTING PERSONNEL ARE "SMALL BUSINESS" MINDED.

MR. CHAIRMAN, YOU WILL NOTE IN THE DOCUMENTS THAT I HAVE SUBMITTED THAT THE PARTICIPATION OF MINORITY-OWNED FIRMS IN OUR SUBCONTRACTING PROGRAM HAS INCREASED DRAMATICALLY FROM \$30 MILLION DOLLARS IN FISCAL YEAR 1991 TO OVER \$87 MILLION DOLLARS IN FISCAL YEAR 1992. SMALL BUSINESS ALSO BENEFITED BY OUR OUTREACH SUBCONTRACTING PROGRAM. OUR SMALL BUSINESS SUBCONTRACTING INCREASED FROM \$349 MILLION IN FISCAL YEAR 1991 TO \$610 MILLION IN FISCAL YEAR 1992.

ANOTHER INDICATOR OF THE ADEQUACY OF OUR PROGRAM EFFORTS IS THE DOLLAR INCREASE IN CONTRACTS AWARDED TO SMALL BUSINESS. IN FISCAL YEAR 1991, WE AWARDED JUST OVER ONE BILLION DOLLARS (\$1,134,975,000) AND IN FISCAL YEAR 1992 SMALL BUSINESS RECEIVED ALMOST ONE AND ONE-HALF BILLION DOLLARS (\$1,406,954,000). AWARDS TO WOMEN-OWNED BUSINESS TOTALED \$82 MILLION IN FISCAL YEAR 1992, AN INCREASE OF 22 PERCENT OVER THE \$67 MILLION AWARDED IN FISCAL YEAR 1991.

MR. CHAIRMAN, I BELIEVE THE PROGRAM AREAS I HAVE DESCRIBED REFLECT A GOOD FAITH EFFORT ON OUR PART AND OUR COMMITMENT TO INCREASE THE PARTICIPATION OF SMALL BUSINESS IN OUR OVERALL CONTRACTING PROGRAM. HOWEVER, THERE IS A DOWNSIDE – AWARDS TO SMALL DISADVANTAGED BUSINESSES ARE NOT AT THE APPROPRIATE LEVEL. A POSITIVE STEP HAS BEEN TAKEN TO CORRECT THIS APPARENT DEFICIENCY. THE SECRETARY OF VETERANS AFFAIRS HAS ISSUED A "WAKE UP" CALL TO ALL OF VA'S CONTRACTING ACTIVITIES. ON MARCH 10, 1993, THE SECRETARY ISSUED A DIRECTIVE TO KEY VA OFFICIALS REGARDING HIS PERSONAL COMMITMENT TO INCREASE PROCUREMENT OPPORTUNITIES FOR MINORITY-OWNED AND WOMEN-OWNED BUSINESS. I HAVE ATTACHED A COPY OF THE SECRETARY'S MEMORANDUM TO MY WRITTEN TESTIMONY.

NOW LET ME BRIEFLY TOUCH UPON THE SPECIFIC ISSUES THAT YOU HAVE RAISED.

GOALS AND ACCOMPLISHMENTS

ATTACHED FOR THE RECORD IS THE REPORT OF VA'S GOALS AND ACCOMPLISHMENTS FOR FISCAL YEARS 1991, 1992 AND THE FIRST HALF OF 1993. ALSO ATTACHED IS THE DEPARTMENT'S REPORT FOR FISCAL YEARS 1991 AND 1992 ON THE NUMBER OF DOLLARS SPENT IN EACH MAJOR CATEGORY UNDER THE 8(A) PROGRAM. THE REPORT ON THE CONTRACTS AWARDED BY THE DEPARTMENT UNDER THE 8(A) PROGRAM FOR THE FIRST HALF OF 1993 AND THOSE AWARDED BY THE NATIONAL ACQUISITION CENTER FOR FY 1991, 1992, AND THE FIRST HALF OF 1993, WITH YOUR APPROVAL, WILL BE PROVIDED AT A LATER DATE.

METHOD OF ESTABLISHING GOALS

IN ESTABLISHING AND IMPLEMENTING THE DEPARTMENT'S GOALS WE FIRST IDENTIFY CATEGORIES OF PROCUREMENTS FOR WHICH SMALL BUSINESS SET-ASIDE CONSIDERATION IS NOT FEASIBLE. SUCH CATEGORIES ARE UTILITIES; CONSTRUCTION PROJECTS IN EXCESS OF \$10 MILLION; DESIGN CONTRACTS FOR THESE PROJECTS; AND NATIONAL ACQUISITION CENTER CENTRALIZED CONTRACTS. ON THE BASIS OF PROJECTED REQUIREMENTS AND ESTIMATED BUDGET, PAST ACCOMPLISHMENTS, AND ONE-TIME UNIQUE AWARDS IN CERTAIN CATEGORIES, WE ESTABLISH WHAT IS CONSIDERED REASONABLE

AND ACHIEVABLE GOALS FOR THE DEPARTMENT. WE ALSO IDENTIFY REQUIREMENTS EARLY IN THE PLANNING STAGE FOR SUITABILITY FOR SET-ASIDE OR FOR PLACEMENT UNDER THE 8(A) PROGRAM.

THE GOALS ARE NEGOTIATED WITH SBA AND ARE PASSED ON TO EACH VA CONTRACTING ACTIVITY.

METHODS TO INCREASE PROCUREMENT

MR. CHAIRMAN, MOST FEDERAL AGENCIES USE THE TIME TESTED APPROACHES SUCH AS ATTENDING SMALL BUSINESS CONFERENCES, CONDUCTING WORKSHOPS, CREATING AWARENESS OF MARKETING OPPORTUNITIES, RELYING ON SBA'S PROCUREMENT AUTOMATED SOURCE SYSTEM (PASS) AND SELF MARKETING BY SMALL BUSINESS ENTREPRENEURS. VA USES THE SAME APPROACHES. WE ALSO CONDUCT VETERAN-OWNED BUSINESS CONFERENCES THAT ARE DIRECTED TO VETERANS IN BUSINESS, WHICH INCLUDES DISABLED VETERANS. IN FURTHERANCE OF THIS INITIATIVE WE HAVE ESTABLISHED GOALS FOR VETERAN AND DISABLED VETERAN-OWNED SMALL BUSINESSES.

THESE APPROACHES WORK, BUT NOT AS WELL AS EDUCATING THE FEDERAL CONTRACTING OFFICER REGARDING THEIR RESPONSIBILITIES TO THE SOCIOECONOMIC PROGRAM INCLUDING THE 8(A) PROGRAM AND THE CAPABILITIES OF SMALL BUSINESS. ALSO THE SMALL BUSINESS OWNER MUST BE EDUCATED REGARDING

THE CONTRACTING OFFICER'S RESPONSIBILITIES AS DESCRIBED IN THE FEDERAL ACQUISITION REGULATION, QUALITY, TIMELINESS, AND CAPABILITIES TO PERFORM. IN MY OPINION, THERE MUST BE A BALANCE IN TRAINING AS WELL AS BUSINESS DEVELOPMENT AND MONITORING TO INSURE PROGRAM SUCCESS.

SECTION 8 (A) PROGRAM

MY COMMENTS REGARDING THE 8(A) PROGRAM ARE BASED ON VA'S EXPERIENCE NATIONWIDE. THE CHICAGO AREA IS NOT UNIQUE IN THE ADMINISTRATION OF THE 8(A) PROGRAM. THE VA HAS HAD FAR MORE SUCCESSES THAN FAILURES WITH THE 8(A) PROGRAM. TRADITIONALLY VA MAKES ITS 8(A) GOAL THROUGH THE AWARD OF CONSTRUCTION CONTRACTS. JUST RECENTLY, THE VA NATIONAL ACQUISITION CENTER AWARDED A \$2.6 MILLION 8(A) CONTRACT TO DAKOTA TRIBAL INDUSTRIES FOR INTERMENT FLAGS. THE HINES SUPPLY DEPOT IS CURRENTLY NEGOTIATING A SECURITY GUARD CONTRACT. VA IS BEGINNING TO LOOK BEYOND CONSTRUCTION FOR GOAL ACCOMPLISHMENT. OUR SUCCESSES ARE DIRECTLY ATTRIBUTED TO DEDICATED BUSINESS OPPORTUNITY SPECIALISTS, CONTRACTING OFFICERS, AND 8(A) CONTRACTORS. OVER THE PAST TWO YEARS, SBA HAS BEEN VERY HELPFUL IN PROVIDING 8(A) FIRMS ON VERY SHORT NOTICE.

DIFFICULTIES WITH THE 8(A) PROGRAM

THE DIFFICULTIES THAT VA HAS ENCOUNTERED INCLUDE:

- o **VOLUME BUYING AT QUANTITIES BEYOND THE CAPABILITIES OF 8(A) FIRMS.**
- o **HIGH COST PRODUCTS THAT 8(A) FIRMS DO NOT GENERALLY MARKET BECAUSE OF THE HIGH CAPITAL INVESTMENT REQUIRED.**
- o **PRICING PREVENTS ENTRY INTO THE DEPOT SYSTEM.**
- o **8(A) FIRM UNABLE TO PROVIDE PERFORMANCE AND PAYMENT BONDS.**
- o **CASH FLOW PROBLEMS.**
- o **NEGOTIATING PRICE.**

FOR THE MOST PART, SBA HAS BEEN HELPFUL AND KNOWLEDGEABLE WITH FEW UNREASONABLE DELAYS. SBA PROBLEMS INCLUDE:

- o **IDENTIFYING 8(A) FIRMS WITH THE QUALIFICATIONS TO PERFORM INCLUDING THE ABILITY TO OBTAIN BONDING.**
- o **SLOW RESPONSE TIME TO OFFERING LETTERS.**
- o **SLOW IN FINALIZING CONTRACT DOCUMENTS.**

o SBA'S AUTOMATED TELEPHONE SYSTEM, MAKES IT VERY DIFFICULT TO TALK WITH A REPRESENTATIVE.

DEFICIENCIES IN SBA BUSINESS DEVELOPMENT, TECHNICAL, FINANCIAL, MARKETING OR OTHER ASSISTANCE.

o LACK OF FUNDING TO PROVIDE LOANS TO 8(A) FIRMS FOR INCREASED MANUFACTURING CAPACITY.

o ASSISTANCE IN DEVELOPING PRICING DURING NEGOTIATIONS.

o BUSINESS DEVELOPMENT SPECIALISTS HAVE TOO MANY 8(A) FIRMS TO SERVICE.

RECOMMENDATIONS FOR IMPROVEMENT

o VISIT THE BUYING OFFICES TO LEARN OF OPPORTUNITIES AND DISCUSS THE CAPABILITIES OF THE LOCAL 8(A) PORTFOLIO.

o PLACE A HIGH PRIORITY ON CONTRACT AWARDS AND RESPONSES TO SEARCH LETTERS.

o RECOMMEND 8(A) FIRMS LOCATED IN THE LOCAL AREA WITHIN THEIR FIELD OF EXPERTISE.

o PARTICIPATE MORE IN THE PREPARATION OF THE COST PROPOSAL REQUIRED FOR NEGOTIATIONS.

o TAKE A MORE ACTIVE ROLE IN THE ADMINISTRATION OF THE 8(A) CONTRACT AFTER AWARD.

o PROVIDE A COPY OF THE 8(A) PORTFOLIO TO EACH BUYING OFFICE.

o PROVIDE A SIMPLIFIED PROCEDURE FOR AWARDING CONTRACTS WITHIN THE SMALL PURCHASE LIMITATION.

o ALLOW COMPETITION FOR PROCUREMENTS OVER \$500,000 WHEN TWO OR MORE 8(A) FIRMS ARE CAPABLE OF PERFORMING, THEREBY ELIMINATING THE NEED FOR AUDIT AND REDUCING THE TIME REQUIRED FOR EXECUTION OF A CONTRACT.

SBA'S ROLE.

TO THE CONTRACTING OFFICER, THE 8(A) PROGRAM IS A CONTRACTING PROGRAM. TO SBA, THE 8(A) PROGRAM IS A BUSINESS DEVELOPMENT PROGRAM. TO ADEQUATELY IMPLEMENT THE 8(A) PROGRAM, IT MUST BE BOTH A CONTRACTING AND A BUSINESS

DEVELOPMENT PROGRAM, WITH THE CONTRACTING OFFICER AND THE SBA REPRESENTATIVE EACH CLEARLY AWARE OF THE OTHER'S PERSPECTIVE.

THE ROLE SBA WOULD PLAY IN THE DEVELOPMENT OF FIRMS WOULD DEPEND ON THE PARTICULAR FIRM. SOME WOULD NEED MORE MONITORING AND ASSISTANCE THAN OTHERS. THE OPTIMUM PARTICIPATION WOULD BE AT THE LEVEL WHEREBY PROBLEMS WERE HANDLED IN A PROACTIVE MODE RATHER THAN A REACTIVE MODE. SBA BUSINESS OPPORTUNITY SPECIALISTS SHOULD HAVE A CASE LOAD THAT GIVES THEM THE TIME TO CAREFULLY EXAMINE EACH COMPANY SO THAT ONLY FIRMS THAT CAN SUCCESSFULLY PERFORM ARE REFERRED TO CONTRACTING OFFICERS. THIS WOULD REQUIRE A MORE INTENSE BUSINESS DEVELOPMENT EFFORT THAN IS CURRENTLY EXPENDED.

MR. CHAIRMAN, THIS CONCLUDES MY ORAL STATEMENT. I AM PREPARED TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

THANK YOU

Department of
Veterans Affairs

Memorandum

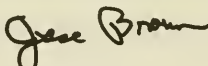
MAR 10 1993

The Secretary (00)

Procurement Opportunities For Minority-Owned and Women-Owned Small Business

Administration Heads, Deputy Assistant Secretaries, Other Key VACO Officials and Field Facility Directors

1. With the assistance of the Director, Office of Small and Disadvantaged Business Utilization, I have reviewed our departmentwide socioeconomic procurement goal achievements.
2. Although our accomplishments are laudable, especially in our achievement of \$1.4 billion awarded to small business, I believe that we can do better in two specific program areas, awards made to minority-owned and women-owned small business.
3. In furtherance of the President's stated commitment to assist minority-owned small business, I am establishing a departmentwide goal of 5 percent of total procurement (excluding FSS orders). This new goal will be substituted for any you may have previously negotiated with the Office of Small and Disadvantaged Business Utilization for minority direct and 8(a) awards and will be effective immediately.
4. I am also personally committed to increasing the participation of women-owned small business in our contracting activities. For Fiscal Year 1993 we have established a goal of \$58 million for women-owned small business. However, I am confident that our contracting activities through the use of innovative outreach can reasonably increase this goal by 20 percent.
5. I intend that the VA be at the forefront of enhancing contracting opportunities for minority-owned and women-owned small business and expect your full cooperation in this effort.



Jesse Brown

DEPARTMENTAL GOALS AND ACCOMPLISHMENTS			
	FY 1991	FY 1992	FY 1993
			(FIRST HALF)
TOTAL PROCUREMENT			
GOAL	\$2,900,000,000	\$2,958,000,000	\$2,900,000,000
ACTUAL	\$3,484,466,000	\$3,740,667,000	\$1,233,360,000
% OF GOAL	120.15%	126.46%	42.53%
SMALL BUSINESS			
GOAL	\$1,015,000,000	\$1,040,216,000	\$1,015,000,000
ACTUAL	\$1,134,975,000	\$1,406,954,000	\$329,699,000
% OF GOAL	111.82%	135.26%	32.48%
% OF T/P	32.57%	37.61%	26.73%
MINORITY-OWNED			
GOAL	\$49,300,000	\$50,286,000	\$52,200,000
ACTUAL	\$65,809,000	\$57,342,000	\$10,692,000
% OF GOAL	133.49%	114.03%	20.48%
% OF T/P	1.89%	1.53%	0.87%
B(A)			
GOAL	\$58,000,000	\$50,286,000	\$52,200,000
ACTUAL	\$65,127,000	\$68,575,000	\$7,098,000
% OF GOAL	112.29%	136.37%	13.60%
% OF T/P	1.87%	1.83%	0.58%
WOMEN-OWNED			
GOAL	\$55,100,000	\$55,160,000	\$63,800,000
ACTUAL	\$67,487,000	\$82,585,000	\$15,161,000
% OF GOAL	122.48%	149.72%	23.76%
% OF T/P	1.94%	2.21%	1.23%
LABOR SURPLUS AREA			
GOAL	\$232,000,000	\$295,800,000	\$435,000,000
ACTUAL	\$509,398,000	\$692,376,000	\$137,069,000
% OF GOAL	219.57%	234.07%	31.51%
% OF T/P	14.62%	18.51%	11.11%
TOTAL SUBCONTRACTING			
GOAL	\$742,400,000	\$757,300,000	\$705,000,000
ACTUAL	\$811,668,000	\$1,791,807,000	\$60,802,000
PERCENT ACHIEVED	109.33%	236.60%	8.62%
SUB/SMALL BUSINESS			
GOAL	\$289,536,000	\$296,104,000	\$282,000,000
ACTUAL	\$349,555,000	\$610,406,000	\$39,200,000
% OF GOAL	120.73%	206.15%	13.90%

<i>DEPARTMENTAL GOALS AND ACCOMPLISHMENTS</i>			
	<i>FY 1991</i>	<i>FY 1992</i>	<i>FY 1993</i>
			<i>(FIRST HALF)</i>
<i>% OF TOTAL SUBCONTRACTS</i>	43.07%	34.07%	64.47%
<i>SUB/MINORITY-OWNED</i>			
<i>GOAL</i>	\$42,317,000	\$43,166,000	\$35,250,000
<i>ACTUAL</i>	\$30,115,000	\$87,498,000	\$1,645,000
<i>% OF GOAL</i>	71.17%	202.70%	4.67%
<i>% OF TOTAL SUBCONTRACTS</i>	3.71%	4.88%	2.71%

<i>DEPARTMENT OF VETERANS AFFAIRS</i>		
<i>OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION</i>		
<i>8(A) ACCOMPLISHMENTS FY 1991 - FY 1992 - (DOLLARS IN THOUSANDS)</i>		
CATEGORY	FY 1991 8(A) DOLLARS	FY 1992 8(A) DOLLARS
CONSTRUCTION	\$46,604	\$65,207
MANUFACTURING	\$254	\$0
MISCELLANEOUS	\$3,910	\$715
NON PROFESSIONAL SERVICES	\$205	\$262
PROFESSIONAL SERVICES	\$12,314	\$1,806
SUPPLIES	\$1,840	\$585
GRAND TOTAL	\$65,127	\$68,575

STATE OF ILLINOIS (EXCLUDING THE NATIONAL ACQUISITION CENTER)			
PREPARED BY: OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION			
8(A) ACCOMPLISHMENTS FY 1991 - FIRST HALF FY 1993 - (DOLLARS IN THOUSANDS)			
CATEGORY	FY 1991 8(A) DOLLARS	FY 1992 8(A) DOLLARS	FY 1993 8(A) DOLLARS
CONSTRUCTION	\$1,651	\$2,632	\$1,997
MANUFACTURING	\$0	\$0	\$0
MISCELLANEOUS	\$0	\$0	\$0
NON PROFESSIONAL SERVICES	\$0	\$0	\$0
PROFESSIONAL SERVICES	\$0	\$0	\$0
SUPPLIES	\$0	\$0	\$0
GRAND TOTAL	\$1,651	\$2,632	\$1,997

DEPARTMENT OF VETERANS AFFAIRS			
OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION			
8(A) ACCOMPLISHMENTS FY 1991 - FIRST HALF FY 1993 - (DOLLARS IN THOUSANDS)			
CATEGORY	FY 1991 8(A) DOLLARS	FY 1992 8(A) DOLLARS	FY 1993 8(A) DOLLARS
CONSTRUCTION	\$46,604	\$65,207	\$12,131
MANUFACTURING	\$254	\$0	\$0
MISCELLANEOUS	\$3,910	\$715	\$1,150
NON PROFESSIONAL SERVICES	\$205	\$262	\$279
PROFESSIONAL SERVICES	\$12,314	\$1,806	\$486
SUPPLIES	\$1,840	\$585	\$0
GRAND TOTAL	\$65,127	\$68,575	\$14,048

NATIONAL ACQUISITION CENTER - HINES, ILLINOIS			
PREPARED BY: OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION			
B(A) ACCOMPLISHMENTS FY 1991 - FIRST HALF FY 1993 - (DOLLARS IN THOUSANDS)			
CATEGORY	FY 1991 8(A) DOLLARS	FY 1992 8(A) DOLLARS	FY 1993 8(A) DOLLARS
CONSTRUCTION	\$0	\$0	\$0
MANUFACTURING	\$0	\$0	\$0
MISCELLANEOUS	\$0	\$0	\$0
NON PROFESSIONAL SERVICES	\$0	\$0	\$0
PROFESSIONAL SERVICES	\$0	\$0	\$0
SUPPLIES	\$1,280	\$461	\$26
GRAND TOTAL	\$1,280	\$461	\$26

Mr. SPRATT. Ms. Butler.

STATEMENT OF JANE PALSGROVE BUTLER, DEPUTY ASSOCIATE ADMINISTRATOR, MINORITY BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT, SMALL BUSINESS DEVELOPMENT

Ms. BUTLER. Good afternoon, Mr. Chairman and Congressman Rush.

Mr. SPRATT. Could you pull the mike up just a little closer? I think it would be helpful.

Ms. BUTLER. I am happy to appear before you today to represent SBA's Administrator Erskine Bowles and the Associate Administrator for the Minority Small Business and Capital Ownership Development Program, Judith Watts. I am particularly happy to be here because I have had the opportunity to hear the comments from all the other panelists, and believe me, SBA is very interested in seeking public comment in forums such as this.

In the interest of time, I am going to greatly reduce the amount of testimony that I read from my written testimony, but I do want to give you some insights and information on the 8(a) program and also on other programs that are available from SBA, to assist firms that are owned and controlled by socially and economically disadvantaged individuals. I would also like to add a few brief comments not included in my written testimony in response to some of the issues raised by some of the other panelists.

I know that each of you is very familiar with the 8(a) program, but in order to frame my comments, I would like to provide a little outline of the program.

The program that is best known under Minority Small Business and Capital Ownership Development is the 8(a) program. Under this program, small companies owned and controlled by socially and economically disadvantaged individuals obtain Federal contracts, management and technical assistance, and financing assistance to develop their businesses. Under 8(a), SBA acts as a prime contractor and enters into all types of Federal Government contracts with other Government departments and agencies. We then subcontract the performance of the contracts to 8(a) participant firms. These contracts generally result, as the witnesses have said today, from the 8(a) firms' own marketing efforts and they may be awarded on either a sole source or a competitive basis, depending on the total value of the procurement. And I would add that it was Congress that established the competitive thresholds of \$3 million and \$5 million, \$5 million for contracts that are classified as manufacturing and \$3 million for all other industries.

The second major component of the MSB&COD programs is the management and technical assistance program which we call colloquially 7(j), after the section of the Small Business Act that gives it its authority. Under 7(j), SBA provides management and technical assistance to 8(a) participant firms, to socially and economically disadvantaged individuals, to businesses operated in areas of low income or high unemployment, and to those firms that are owned by low income individuals.

We are looking at ways to make the 7(j) management and technical assistance program more responsive to the needs of our cli-

ents. Beginning with the recently released solicitations for fiscal year 1994 7(j) awards, we have started to target the management and technical assistance available to 8(a) firms under the 7(j) program to four specific areas where we feel it is most badly needed to assist our firms. These are: Marketing assistance, bid and proposal preparation, accounting systems, and specific industry expertise.

SBA provides its MSB&COD services through a network of program-dedicated personnel who are located in our central office and in our field offices, district and regions. The quality of the education and training of this staff has frequently been raised as an issue related to the delivery of 8(a) program services. Therefore, I would like to point out that more than 70 percent of the MSB&COD work force have bachelor degrees or higher and 50 percent of those individuals hold advanced degrees. In addition, over the past several years, SBA has undertaken an aggressive formal training program. During the last 3 fiscal years alone, nearly every MSB&COD staff member has received some training, either in procurement, program-specific or business development courses. This effort is an ongoing effort and it is only limited by the resources that are available to us.

In addition to the 8(a) and 7(j) components of the MSB&COD program, the office also provides an extensive outreach effort and serves as a conduit to encourage maximum participation by the minority small business community in all the programs and services offered by SBA. Key among these programs are SBA's various loan programs; and in addition, we provide a variety of programs necessary to develop small businesses, including the surety bond guarantee program, which has been mentioned extensively today; SCORE, the Service Core of Retired Executives; small business innovation research program; small business development centers; and the small business investment and specialized small business investment companies.

At present, there are approximately 4,500 8(a) program participants. These firms are located in every State and the District of Columbia and in Puerto Rico. There were approximately 475 firms certified and approved during fiscal year 1992. During that fiscal year, 8(a) participants received approximately 4,582 contracts and the value of all contract actions was \$4.3 billion. Since the inception of the program in 1968, a total of 9,430 firms have participated and we have been responsible for the award of almost 80,000 contracts with a value of approximately \$40 billion.

These contracts are in virtually every industry—construction, manufacturing, professional and nonprofessional services, and research and development. In fact, the participants in the 8(a) program mirror those firms that sell goods and services in Federal procurement generally.

Despite a controversial past and present, the 8(a) program remains the most effective means of providing minority-owned businesses with access to significant Federal procurement dollars. I would stress that the program has evolved through legislative changes that were designed to emphasize the nature of the program as a business development program rather than a contracting program.

All of us, from Administrator Bowles down, are aware that the 8(a) program needs improvement. We recognize the fact that we have a serious resource problem that calls on us to find more creative means of utilizing our personnel and other resources. We are strongly committed to streamlining our processes and making the program more user-friendly for 8(a) applicants and participants as well as for the Federal agencies with which we contract.

One area where we have already made a great deal of progress is an area that was mentioned in testimony earlier this morning. That is with regard to our automated data system. This system is multifaceted, but to date we have designed and implemented what we call CTS, the Certification and Tracking System. The system will track all applicants for program participation and it is now in use in our central office and in our processing centers.

Also, just 2 weeks ago, we piloted the first part of our Servicing and Contracts System. This system will provide information we have not previously had on individual firms that participate in the program. It will allow us to track individually the firm's progress and also to compile data which can be reported to provide a more accurate data base when we give reports to Congress.

Both of these systems are ongoing and they will be followed by a final effort which will tie all the systems together and provide a data repository which can be used for our national data reporting.

Any plan to revitalize the 8(a) program must include one element—it is fundamental and indispensable for all small businesses, but particularly for minority-owned small businesses—that is access to capital. Study after study, report after report has cited the difficulties that small minority-owned firms experience in obtaining capital. It is one of the most formidable obstacles to business development and success. My written testimony provides information on SBA's various financing programs, but I am happy to note today that the SBA guarantee loan program recently received a new authorization which will increase, by \$3.2 billion, the amount of money available for the SBA loan guarantee program, so that the total fiscal year 1993 allocation is now \$6.8 billion. This new authorization makes SBA able to once again provide financial assistance in the form of loan guarantees to minority-owned and other small businesses.

This gives you a very brief idea of the direction that the MSB&COD program is headed. I can assure you that both Administrator Bowles and Associate Administrator Watts are committed to the concept of revitalizing the Minority Small Business and Capital Ownership Development Program. I would like to thank you again for inviting me here today. I will be happy to answer any questions you have now and SBA will be providing more detailed written response to the questions you previously provided.

[See appendix 1 for this information.]

Mr. SPRATT. Thank you very much.

Mr. Cooper, before going to Mr. Smith, I did not mean to pass over you. If you have anything you would like to add to the testimony of Mr. Denniston, you certain have that opportunity.

Mr. COOPER. No, Mr. Chairman, I do not. Scott and I got together previously and we incorporated my comments into his testimony.

Mr. SPRATT. OK, fine. The record will note that, thank you very much.

[The prepared statement of Ms. Butler follows:]

TESTIMONY OF

JANE PALSGROVE BUTLER

DEPUTY ASSOCIATE ADMINISTRATOR
FOR PROGRAMS
OFFICE OF
MINORITY SMALL BUSINESS &
CAPITAL OWNERSHIP DEVELOPMENT

U.S. SMALL BUSINESS
ADMINISTRATION

MONDAY, JULY 12, 1993

HEARING OF THE COMMERCE, CONSUMER, AND
MONETARY AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS

CHICAGO, ILLINOIS

Good morning Mr. Chairman and Members of the Committee. I am happy to appear before you today to represent SBA's Administrator Erskine Bowles, and the Associate Administrator for the Minority Small Business and Capital Ownership Development (MSB&COD) Program, Judith Watts.

I would like to share with you some insights and information on the U.S. Small Business Administration Minority Small Business and Capital Ownership Development Program as well as other SBA programs which are available to assist the development of small businesses owned and controlled by socially and economically disadvantaged individuals.

The Minority Small Business and Capital Ownership Development program is a multi-faceted program designed to develop and promote successful business ownership by socially and economically disadvantaged individuals. Its components include the 8(a) business development program, the 7(j) management and technical assistance program, and the minority small business outreach program.

Under 8(a) program authority, SBA provides a wide variety of services to participant firms, including business development assistance; help in identifying, negotiating, and winning federal contracts; and management and technical assistance. This, of course, is in addition to the counselling and financial services available to all small businesses through other SBA programs.

For those of you who are not very familiar with the various components of the MSB program, I will briefly outline them. The MSB&COD component that is best known is the 8(a) program. Under this program small companies owned by socially and economically disadvantaged citizens can obtain Federal Government contracts, management and technical assistance, and financing assistance to develop their businesses. Under 8(a), SBA acts as a prime contractor and enters into all types of federal government contracts with other government departments and agencies. SBA then subcontracts contract performance to eligible 8(a) firms. These contracts generally result from the 8(a) firm's own marketing efforts, and may be awarded on either a sole source or competitive basis, depending on the total value of the procurement.

The second major component of the MSB program is the management and technical assistance program, colloquially known as the 7(j) program. Under this program, SBA provides management and technical assistance to 8(a) participant firms, socially and economically disadvantaged individuals, businesses operating in areas of low income or high unemployment, and to those firms owned by low-income individuals.

In addition to the 8(a) and 7(j) components, the Office of MSB&COD also serves as a conduit to encourage maximum participation by the minority small business community in all the programs and services offered by SBA. Key among these programs are SBA's various loan programs which I will discuss in more detail later. In addition, there are other SBA and affiliated programs of value in developing small disadvantaged businesses. They include the surety bond guarantee program, SCORE (the Service Corps of Retired Executives), the Small Business Innovation Research Program, Small Business Development Centers (SBDC), and the Small Business Investment Company (SBIC) Program.

There are 8(a) program participants in virtually every industry-- construction, manufacturing, research and development, professional and non-professional services. Contracts awarded through the 8(a) program have covered a broad spectrum from the provision of services in non-technical areas such as janitorial and food attendant services, to the provision of high-tech services, such as computer software for advanced weapons systems. Participants in the 8(a) program have provided goods and services to support NASA's space shuttle program, and they have built satellites and radar sites for drug interdiction. They have provided support for critical military exercises, and they have been responsible for renovating structures important to our Nation's history. We believe that we can be justifiably proud of the accomplishments of 8(a) program participants.

At present, there are approximately 4355 8(a) program participants located across the country in every State, the District of Columbia and Puerto Rico. This figure includes approximately 475 firms certified and approved for program participation during fiscal year 1992. During fiscal year 1992, 8(a) program participants received approximately 4582 contracts, with the total of all contract actions valued at approximately \$4.3 Billion. Since the inception of the 8(a) program in 1968, a total of 9,430 firms have participated in the 8(a) program. The program has been responsible for the award of more than 79,348 contracts valued at approximately \$40 billion.

The 8(a) program began in 1968 as a program designed to provide access to the economic mainstream for firms owned by socially and economically disadvantaged individuals. Over the years the program has undergone a number of significant legislative changes. Most recently, in 1988, Congress enacted legislation that made sweeping changes to the 8(a) program. This statute, the Business Opportunity Development Reform Act of 1988 (Public Law 100-656), revised the 8(a) application processing structure, mandated that firms participate in the program for a maximum of nine years, introduced competition to the 8(a) contracting process, created an 8(a) loan program, and established a requirement that participant firms maintain an appropriate mix of 8(a) and non-8(a) revenues.

Despite a controversial past and present the 8(a) program remains the most effective means of providing minority businesses with access to significant Federal procurement dollars. I would stress that the program has evolved through legislative changes to emphasize the business development aspects of firms with a proven track record. The program is not designed to bring instant success or miracle riches. I would consider it more like an important business development tool rather than a genie in a bottle.

All of us, from Administrator Bowles down, are aware that the 8(a) program needs improvement. We recognize the fact that we have a serious resource problem that calls on us to find more creative means of utilizing our personnel and other resources. We are strongly committed to streamlining our processes and making the program more user friendly, both for 8(a) participants, and for the Federal agencies with which we contract.

We are also looking at ways to make the 7(j) management and technical assistance program more responsive to the needs of our clients. Beginning with the recently released solicitations for FY 94 7(j) awards, we have started to target the management and technical assistance available to 8(a) firms under the 7(j) program to four specific areas that are most important for sustained business health: marketing assistance, bid and proposal preparation, accounting systems, and industry specific expertise.

But there remains one element - a fundamental, indispensable one that must be addressed before we can say that we have put in place the kind of program that will get the job done. That element is access to capital. Study after study and report after report cite the difficulties small and minority firms experience in obtaining capital as the most formidable obstacle to their success. A key component of the package now being considered is a recommendation that SBA's credit programs be used more extensively to expand the minority business community's access to capital.

SBA is very aware of the critical need for increasing capital available to small businesses owned by disadvantaged individuals. To this end, SBA is invigorating existing programs such as the Specialized Small Business Investment Company (SSBIC) program, formerly The Minority Enterprise Small Business Investment Company (MESBIC) program. Minority-owned firms will soon begin seeing the benefits that the enactment of the new SSBIC legislation will bring in terms of their ability to find investment capital. In accordance with recent program changes, SSBICs will be allowed to secure more than one third of their private capital from State and local governments and to secure investment funds from both public and private pension funds. In

addition, SSBICs will begin providing short term loans to meet borrowers' contract financing needs.

Financial assistance is available through SBA's many lending programs--including the 8(a) direct loan program for eligible certified firms. Applicants for the 8(a) direct loan program must be participants in the 8(a) program and eligible to receive 8(a) contracts. In addition, loans may be made through lending institutions under SBA's guaranty programs. The President and Congress recently authorized an additional \$3.2 billion for this program for fiscal year 1993--bringing the total fiscal year 1993 figure to \$6.8 billion.

We also believe that 8(a) participants and other minority firms will find benefit from the agency's new revolving line of credit guaranty program. Loans made under this program will be 85 percent guaranteed by SBA, and will be secured either by the borrower's accounts receivable and inventory or by the business' fixed assets.

Minority firms will also find a new source of borrowed capital through SBA's microloan demonstration pilot program. Under this pilot, SBA has made funds available to local level, community based, non-profit organizations throughout the country for the purpose of lending to small businesses. The loans granted will range from a few hundred dollars to a maximum of \$25,000, and may be used to purchase fixed assets and inventory, and for working capital.

I would also like to mention that SBA is currently examining its existing size standards. As you are aware, these standards are used to determine eligibility for participation in all of SBA's programs. In testimony before the House Small Business Subcommittee on Minority Enterprise, Finance and Urban Development on May 25, 1993, Administrator Bowles stated his intentions to re-propose for comment, two rules to simplify SBA's size standards. The rules are being finalized and will be published for public comment in the near future.

This gives you an idea of the direction the MSB program and other programs within the Agency are headed. I can assure you that both Administrator Bowles and the Associate Administrator of the MSB&COD program, Judith Watts, are committed to the concept of revitalizing the Minority Small Business and Capital Ownership Development Program. Again, thank you for inviting me here to testify. I will be happy to answer any questions that you may have.

Mr. SPRATT. Our next witness and final witness is the District Director of the U.S. Small Business Administration, Mr. John L. Smith. Welcome and thank you for coming.

STATEMENT OF JOHN L. SMITH, DISTRICT DIRECTOR, CHICAGO, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY HOWARD VON DRUSKA, ACTING REGIONAL ADMINISTRATOR, AND GARY PEALE, ASSISTANT REGIONAL ADMINISTRATOR

Mr. SMITH. Mr. Chairman, Congressman Rush, members of the subcommittee, it is a pleasure to be here today to testify and I thank you for the opportunity.

First, I would like to introduce some of the folks that did come with me from SBA. They are sitting over here in the back. Howard Von Druska is the Acting Regional Administrator, and I might say too, he is an expert on surety bonds; Anthony McMahon—

Mr. SPRATT. You should have identified him earlier this morning, we would have had him testify.

Mr. SMITH. I was going to suggest that, but I thought it would be a little out of order if he sat at the table.

Anthony McMahon, my Deputy District Director in Chicago at the district; Bob Connor, who is the Assistant District Director for Minority Small Business in the district; and Robert Kyler, who happens to have a rather unique background—do not misconstrue this, he has been able to keep a job—he is now the Deputy Regional Administrator, formerly the Deputy Associate Administrator in Washington in the MSB program. He was also the Assistant Regional Administrator for Minority Small Business in the region and at one time with me as the Assistant District Director. That spans over a number of years, so he has had lots of good experience. And then Gary Peale who is presently the Assistant Regional Administrator for Minority Small Business.

The Chicago district office of SBA, along with its Springfield branch is responsible for the delivery of a full range of SBA programs delegated to field offices in the State of Illinois. These activities include financial assistance, business development, and minority small business capital ownership development. My comments today will focus on the minority business programs.

I joined SBA in 1975 after having served as the Regional Director in Chicago for the U.S. Commerce Department's Office of Minority Business Enterprise, which is now the Minority Business Development Agency. Because of my background, I brought a special interest and energy to the MSB program of this office. The record shows that over these years we have enjoyed some very substantial successes while avoiding the embarrassments that occurred elsewhere in the country. I attribute our accomplishments to sound management and a commitment to the mission of the program.

The development of a properly staffed and trained program was no easy task but it was achieved over time. In a program which has had ever-increasing regulatory and policy requirements with static or shrinking human resource support, hard management decisions, and real commitment are required. A case in point for this office was my decision to assign one of my financial program loan

officers to the MSB program as a full time employee of the division. Though this generated some criticism and detracted from some of the loan accomplishments, it brought stability, timely and full regulatory compliance, and a sense of reasonable accountability in a program which requires management to make risk decisions on a constant basis.

During my first years in managing this program, I have gone from a position of virtually total authority to one currently of only marginal influence. By this comment I mean that because of statutory changes, I no longer review applications for admission to the 8(a) program; I no longer have the business development expense resource to utilize in contract negotiations or client capital development; I no longer have an advance payment program to facilitate contract performance for firms who are cash poor by definition; I no longer have a 100-percent guarantee on bank loans for 8(a) firms but rather a fully subsidized direct loan program essentially restricted to manufacturing firms. By force of personality, I am still able to interject the office in the negotiating process, jawboning and cajoling advantage for our firms. I believe that in government programs, whether the U.S. Army, NASA, or SBA, reasonably trained manpower and reasonably qualified leadership all equipped with reasonable tools will accomplish their mission. I believe that by holding management accountable while investing in the appropriate level of human and programmatic resources that the MSB/COD mission can be met even in an era of diminished Federal procurement.

I have included an abundance of statistical information as requested. These reports reflect, among other things, that this office in fiscal year 1991 generated 166 contracts totaling \$122 million. And by the way, you could use a multiplier in there and probably propel that to four hundred and some million because of the economic benefit that accrued. Further, in fiscal year 1992, the contract volume jumped to 201 contracts totaling \$132 million, with again a multiplier for it to about half a billion dollars. This represents an 8-percent increase in dollars and a 57-percent increase in numbers of contracts. The high level of activity of this office I am proud to point out is 35 and 42 percent respectively of the combined six State region V total for 8(a) contracting in numbers of contracts and dollars of contracts. These performance percentage levels were consistent in both 1991 and 1992. The budget constraints of fiscal year 1993 have already had an impact on the operating unit that produced these numbers. As we go forward with anticipated operating budget cuts of 17 percent in fiscal year 1994, it is clear that this continuously expanding portfolio will be a grossly understaffed function. Without adequate funding, continued compliance with both the spirit and the letter of the law and with regulations could be viewed as in jeopardy. As agencies such as SBA go forward with shrinking administrative budgets, some serious review of program structure and program priorities need to be made.

If the MSB program in SBA is to succeed, we must rethink the resource commitment being made and change the best efforts goals established by contracting agencies. Until the job performance plans and critical job elements of contracting officers in agencies throughout the government mirror the espoused goals of their

agency, we will not see these contract source facilities complementing the demand generated by SBA's goals and missions.

I can only allude to the Community Reinvestment Act as an example. This act of Congress was largely given lip service by the banking industry until teeth were added to it. Just so, Federal procurement goals will only be met when absolutely mandated by the Chief Executive. I will put parentheses (President).

The MSB/COD program has another assistance mechanism of note and that is 7(j). Under a Federal cooperative agreement with SBA, Ralph Moore & Associates and Loreda and Associates provide managerial and technical assistance to minority-owned business firms. During fiscal year 1992, there were 340 task days of assistance provided to 35 different companies. This compares to 340 task days to 28 days in fiscal year 1991. The program helped minority owners with loan applications, business plans, marketing and other business management concerns. I have high regard for these and other contractors who have performed these duties in the past. I do, however, urge that some thought be given to restructuring this program in one minor way. The annual competition for these contracts is burdensome and not always timely in the budget process. I believe we could better serve our clients as we would also 7(j) contractors if we established a 12-month contract or agreement negotiated with two 12-month renewal options for a total of 36 months. Congress has authorized other training and counseling programs for 8(a) firms; however, these have never been funded by the Appropriations Committee and the Congress for delivery.

Mr. Chairman, in closing I want to stress that I am committed to working with this committee, with the other witnesses here today, and especially with our small business customers. Thank you for the opportunity to testify and I welcome questions.

[The prepared statement of Mr. Smith follows:]



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STATEMENT OF
JOHN L. SMITH
DISTRICT DIRECTOR CHICAGO
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE
COMMITTEE ON GOVERNMENT OPERATIONS
THE SUBCOMMITTEE ON COMMERCE, CONSUMER, AND
MONETARY AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
JULY 12, 1993

Mr. Chairman, and Members of the Committee,

Thank you for the opportunity to appear before you today.

The Chicago District Office of the Small Business Administration along with its Springfield Branch Office is responsible for the delivery of the full range of SBA programs delegated to field offices in the State of Illinois. These activities include Financial Assistance, Business Development and Minority Small Business Capital Ownership Development. My comments today will focus on the Minority Business Programs.

I joined the SBA in 1975 after having served as the Regional Administrator in Chicago for the U.S. Commerce Departments Office of Minority Business Enterprise. Because of my background I brought a

special interest and energy to the MSB/COD Program of this office.

The record shows that over these years we have enjoyed some very substantial successes while avoiding the embarrassments that occurred elsewhere in the country. I attribute our accomplishments to sound management and a commitment to the mission of the program.

The development of a properly staffed and trained program was no easy task but was achieved over time. In a program which has had ever increasing regulatory and policy requirements with static or shrinking human resource support, hard management decisions and real commitment are required. A case in point for this office was my decision to assign one of my financial program loan officers to the MSB program as a full time employee of the division. Though this generated some criticism and detracted from my loan program accomplishments, it brought stability, timely and full regulatory compliance and a sense of reasonable accountability in a program which requires management to make risk decisions on a constant basis.

During my first years in managing this program, I have gone from a position of virtually total authority to one currently of only marginal influence. By this comment I mean that: Because of a statutory changes I no longer review applications for admission to the 8(a) program; I no longer have the Business Development Expense resource to utilize in contract negotiation or client capital development; I no longer have an Advance Payment program to facilitate contract performance for firms who are cash poor by definition; I no longer have a 100% guarantee on bank loans for 8(a) firms but rather a fully subsidized direct loan program essentially restricted to manufacturing firms. By force of personality I am still able to interject the office in the negotiating process, jawboning and cajoling advantage for our firms. I believe that in government programs whether the U.S. Army, NASA or SBA reasonably trained

manpower and reasonably qualified leadership all equipped with reasonable tools will accomplish their mission. I believe that holding management accountable while investing in the appropriate level of human and programmatic resources that the MSB/COD mission can be met even in an era of diminished Federal Procurement.

I have included an abundance of statistical information as requested. These reports reflect among other things that this office in fiscal year 1991 generated 166 contracts to clients totalling \$122 million of activity. Further in fiscal year 1992 the contract volume jumped to 201 contracts totalling \$132 million. This represents an 8% increase in dollars and a 57% increase in numbers of contracts. The high level of activity of this office I am proud to point out is 35% and 42% respectively of the combined six state Region V total for 8(a) contracting in numbers of contracts and dollars of contracts. These performance percentage levels were consistent in both 1991 and 1992. The budget constraints of fiscal year 1993 have already had an impact on the operating unit that produced these numbers. As we go

forward with anticipated operating budget cuts of 17% in fiscal 1994 it is clear that this continuously expanding portfolio will be a grossly understaffed function. Without adequate funding, continued compliance with both the spirit and the letter of the law and with regulations could be viewed as in jeopardy. As agencies such as SBA go forward with shrinking administrative budgets some serious review of program structure and program priorities need to be made.

If the MSB/COD's 8(a) Program in SBA is to succeed we must rethink the resource commitment being made and change the best efforts goals established for contracting Agencies. Until the job performance plans and critical job elements of contracting officers in Agencies throughout the government mirror the espoused goals of their Agency we will not see these contract source facilities complimenting the demand generated by SBA's goals and mission. I can only allude to the Community Reinvestment Act (CRA) as an example. This act of Congress was largely given lip service by the banking industry until teeth were added to the law. Just so, federal procurement goals will only be met

when absolutely mandated by the Chief Executive.

The MSE/COD Program has another assistance mechanism of note and that is 7(J) call contracting. Under a Federal Cooperative Agreement with SBA, Ralph G. Moore & Associates and Loredo and Associates provide managerial and technical assistance to minority-owned business firms. During FY 1992, 340 task days of assistance were provided to 35 different companies. This compares with 340 task days to 28 companies in FY 1991. The program helped minority owners with loan application, business plans, marketing and other business management concerns. I have high regard for these and other contractors who have performed these duties in the past. I do, however, urge that some thought be given to restructuring this program in one minor way. The annual competition for these contracts is burdensome and not always timely in the budget process. I believe we could better serve our clients as we would also 7(J) contractors if we established a 12 month contract or agreement negotiated with two 12 month renewal options for a total of 36 months. Congress has authorized other training and

counseling programs for 8(a) firms however these have never been funded by the appropriations committee and the Congress for delivery.

Mr. Chairman, in closing I want to stress that I am committed to working with this committee, with the other witnesses here today especially with our small business customers. Thank you for the opportunity to testify today. I welcome any questions you may have.

Mr. SPRATT. Well thank you very much for your forthright testimony, we appreciate it. With Mr. Rush's indulgence, I might ask just a couple of questions because I may have to leave earlier than he would like to, in order to get my plane back to Washington.

One particular issue is staffing. You alluded to it in your testimony and others have alluded to it today. It is our understanding that there were three experienced SBA employees in your office who recently retired and that has left you with just one business opportunity specialist to handle 120 8(a) contractors in this immediate area. Does that leave you, to say the least, short handed? Are you able to fulfill your mission with that number of staff?

Mr. SMITH. You would kind of call that an understatement, I suppose. [Laughter.]

We did have a breakthrough though, we were able to hire one person just last Friday. But yes, it does leave us grossly understaffed; and, of course, it raises questions when you are out here at this end of the horn because you know you have got a priority program, you know you have something to deliver, but then how do you get that staff replaced. And we have had our cutbacks, as I have mentioned, which trickle down and we happened to be at the bottom of that bucket when it trickled. I think I attribute a lot of it to the fact that we went through this transition between administration A and administration B. And that has left, you know, the current administration in the position where they are trying to meet these cuts being mandated by the budget process. So those vacancies that occur, not only in MSB but across the board, hardly any of them were filled.

Mr. SPRATT. We focused earlier today quite a bit on performance bonds, and those are a major threshold barrier. But you note that the tools at your disposal have actually decreased, diminished over time, and you noted several things that you once had at your disposal that you no longer have, such as an advance payment program; at one point you could pay in advance to meet the working capital requirements of small contractors. That program was repealed?

Mr. SMITH. Well, what happened, for fiscal year 1994, it is not in the budget, right Jane?

Ms. BUTLER. What happened was under the Credit Reform Act, it was determined to be a credit program. In the past, we had not classified it as a credit program. Once it was determined to be a credit program, then it needed first an appropriation—we thought we could take care of the appropriation by just requesting additional funding—and then a question was raised in Congress about whether we actually had authorization to make a loan program under 8(a). So it was not specifically repealed, but it died by virtue of other legislative changes.

Mr. SPRATT. So you can no longer make an advance payment.

Ms. BUTLER. We have no funding for advance payments.

Mr. SMITH. There is no funding in there for advance payments, and of course, some of us at this end; you know, whenever that was classified as a loan program, there were some losses in there as far as the subsidy, but as I mentioned earlier in my testimony, if offices in SBA like mine would devote the proper resource, even if you sacrificed, to have someone manage that advance payment ac-

count, then you will not lose any money. It is a very simple process, monitor the account, make the payments. It is a joint bank account, but it does give that 8(a) company the opportunity to have the cash, to have the working capital and not have to take on another partner that they cannot afford, called the bank.

Mr. SPRATT. You also mentioned the 100-percent loan guarantee. Of course, you have 80-percent loan guarantees now.

Mr. SMITH. Yes, what I was alluding to there was the business development expense program. And what that virtually did, that provided to the 8(a) concern, the opportunity to buy equipment, production equipment, or tooling, to be competitive on a contract. And when they bought that equipment upfront through business development, then they gained title to the equipment, once they finished the contract. The idea was that it really gave us a very essential business development tool, because that contractor then would have that equipment on hand, whether he is in construction or whether it is manufacturing. They go out to bid on a followup contract, then they are now competitive at the State or at the city level, wherever they may go, to help balance their 8(a) portfolios. So we have seen that time and time again, that it worked. But what occurred, they changed that around and made it a business development loan program which, in my estimation, has not done the job.

Mr. SPRATT. You heard the discussion earlier today about raising the threshold, at least selectively, in some cases on performance bonding, surety bonding, for certain jobs. In your opinion, would that help make business opportunities more accessible for small business?

Mr. SMITH. Yes, I think it would.

Mr. SPRATT. What level is a safe level?

Mr. SMITH. I am not quite sure what a safe level would be. I would rather have my surety expert over here deal with that.

Mr. SPRATT. Would you care to opine and give us your advice about exactly how we could adjust the performance bonds?

Mr. VON DRUSKA. I think our maximum on the surety bond program is \$1¼ million, that is the largest contract that we can guarantee a bond to. But the average bond in our office is merely \$100,000. So while there are a few businesses that we turn down because of that threshold, there are not a lot. So I would like to see it increased to cover those few businesses—

Mr. SPRATT. Now you are talking about the ceiling rather than the floor.

Mr. VON DRUSKA. Yes. You are going the other way?

Mr. SPRATT. I am going the other way. We had both questions raised this morning. So what you are saying is you really do not bump the ceiling that often.

Mr. VON DRUSKA. Not often; no, we do not.

Mr. SPRATT. Now if we were to dispense with the threshold or raise the threshold in some cases, then the government would simply take the risk on \$100,000, \$200,000, or \$300,000 projects. Would that, in your opinion, be an inordinate risk for the government to take? Would we lose much money?

Mr. VON DRUSKA. When you mentioned before, when we were sitting at the table, what it does is that the government uses the sur-

ety as their underwriter to assess the risk. Now the government then would have to do that itself, and aside from what some people mentioned, GSA has the capability. I wonder if some of the agencies would have to have that capability, if they were to assume it in-house. So you would have to have that risk of who makes the credit judgment, someone has to make it regardless of the size of the contract.

Mr. SPRATT. Well, to some extent you are making those judgments all the time in your guaranteed loan program.

Mr. VON DRUSKA. That is right, and we make it all the time, but we have people trained to make it.

Mr. SPRATT. And you also have a bank out there making a credit judgment in taking part of the risk, as well.

Mr. VON DRUSKA. If they were to be on a preferred program where we have no oversight when we make the loan, fine. Those banks are the ones who are our best participants, they have the trained people, and they have an excellent track record.

I should mention, our surety bond program has a very low rate of default, it is like 2.5 percent, which is very small. So the subsidy rate on that program is insignificant.

Ms. BUTLER. I have some national statistics for fiscal year 1992 on the bond program. We approved 30,657 bid bonds, which amounted to contract opportunities valued at \$5.9 billion. And we approved 7,311 final performance and payment bonds in the amount of \$1 million in guarantees with average contract value at \$138,000.

Mr. SPRATT. Well, why is this program not known? Why do not more subcontractors find it to be the solution to their problem?

Mr. VON DRUSKA. As the representative for Keith, the agency has been doing a lot of business. We do write a lot of bonds and loans. I do not know why more do not utilize it. Our turndown rate is very, very small and our loss rate is very small. Some people, of course, mentioned the contracts that were rejected or had trouble with were \$5 million contracts and of course that is beyond our threshold. So maybe in that category of \$1 to \$10 million, there may be a big gap in that area, I would not know that.

Mr. SPRATT. Yes. A question about what I would call TINA, Truth-in-Negotiations Act, was raised—or a problem with preaward audits, and postaward audits, too, under the Truth-in-Negotiations Act. And there was some suggestion made in your quarters, I believe, that we have disadvantaged small business compete more on contracts of \$500,000 or more, so that you would have at least two parties, not a sole source situation, to avoid the audit. Is this a problem? Is it a problem on the larger contracts to generate a second competitor so you can dispense with the preaward audit?

Mr. SMITH. A lot of times, we will find in going into—reaching out, there is difficulty. I will give you an example. We had a construction contract that came out of the Corps of Engineers. And it was for the State of Illinois, it was down in the southern part for a lock and dam—looks like it is a little late for that one. [Laughter.]

But we had this lock and dam project and it went competitive, it had a \$3 million threshold on there, and it was over the three. We only had two contractors and one was determined to be

nonresponsive. So all of a sudden you are out of a contract altogether.

I would think increasing especially that amount for competition on construction would have been somewhat reasonable, because it ended up going 8(a) anyway.

But there is another issue I would just like to point out on that particular contract. We had a bonding problem because the contractor, who we wanted involved, was already strung out and he could not raise a sufficient bond. We were trying to get a bond waiver, and getting a bond waiver through the normal process of bond waiver became a little bit complicated and we were not really able to achieve it. We discovered through one of our agents through the Small Business Development Center program here in Illinois that there had been published in the Federal Register last August, almost a year prior to this contract coming out, a revision that said contracts under—up to \$3 million rather—in construction, being performed by an 8(a) firm, the Defense Department at that time had the ability to waive the bond as long as the contractor met three conditions. We checked it out and the contractor met the three conditions. We went back to the Corps of Engineers, they never heard of it. So after we got into conversation with the Corps, we got to that individual, who is in charge of these buying activities, called the contracting officer. Well the contracting officer was totally aghast because he had not heard of it either. But then he later said to me—and I had gotten involved personally—he said to me, well I do not think we want to do this. And my reaction was who are you to say we do not want to do it. So I called the Colonel in the Corps that heads up Louisville, he was aware of it and then Bob Kyler over here checked with policy in Defense in Washington and in fact there had been contracts awarded on the military side of the house, plus the fact also, as they told us, it applied to the civil side. So we had to then go back and let them know that the Corps—that this was a workable solution to our problem.

We did get it accomplished, but I guess where I am coming from: First, you had a threshold that precluded competition; second we had a bonding problem which you are going to find a lot of times with minority contractors because the bond is issued based on what is outstanding. So if you are already at your bond capacity, you may have a fantastic opportunity but you cannot take advantage of it because you cannot get a bond.

So this was something that was there. So again, maybe that same kind of a provision could be passed on from Defense to maybe some of the other activities that are there.

Ms. BUTLER. If I may, if we could go back to the issue of competition. First of all, I would like to say it is not usually a problem finding more than one firm to compete, as we have a lot of firms that are capable in the same area. So generally the issue of finding competition is not that great.

But the competition as a new aspect in the 8(a) program has received mixed reviews. At the table this morning what you heard was a request that the ceiling be lowered, but there are as many agencies that do not like competition at all and prefer sole source awards because they can talk directly to the firm that they want, find out about the firm's capabilities and let them contract directly

to that firm. So I do not think we should leave here today with the impression that competition at a lower level is necessarily desired by all agencies, and even among 8(a) firms, there is a divergence of opinion because you have to remember that any time there is a competitive procurement as opposed to sole source, it is a very expensive process in terms of bid and proposal preparation. And it is not directly reimburseable, so firms are called upon to spend a great deal of money without assurance of receiving a contract.

Mr. SPRATT. Good point.

I am going to have to take leave of you and say to your panel in particular, thank you very much. I gained much from your testimony, the specific recommendations from GSA and SBA's elucidation of it, and VA's obvious earnest interest in the entire program. Congressman Rush, I am taking back to Washington a lot of good ideas that we will try to get implemented over time. And I commend you for bringing me out here to Chicago and for letting me hear these good people testify. I have found it extremely informative and useful.

I am not closing the hearing by any means. Congressman Rush will take the Chair. The only reason I am leaving is I think the next flight out of Chicago does not have a set-aside for Congressmen. [Laughter.]

Mr. RUSH [presiding]. Mr. Chairman, before you leave, I again want to reiterate my gratitude and my delight in the fact that you have taken some time out of your busy schedule to come to hear the problems that were presented to you this morning. Again, it is an indication of your astute capability as the chairman of this subcommittee, your concern for the plight of minority and women-owned businesses and it is a real pleasure working with you. And I would ask the people who are present today just to give you a round of applause.

[Applause.]

Mr. RUSH. I just have a couple of questions that would help me. Obviously we have three different agencies here, VA and GSA and SBA. My question is for Mr. Smith. I do not want to put you on the spot, but the VA and GSA are here because they have got something to boast about, they have some fairly good programs, they are on the mark, they are moving in a proactive way to address the concerns of all of us and the concerns of minority and women-owned businesses. There are some agencies who are not here, and the chairman this morning mentioned HUD, which brings the thought to me that again there is an unevenness among the different agencies in terms of implementation of the spirit of minority set-asides. Can you, since you seem to be a person who is very frank and you have indicated the strength of your personality, can you give us some indication of the departments that you think have a long way to go and the departments that are moving forward? I do not want to put you on the spot, but I would like to know what your assessment is.

Mr. SMITH. Well I think the accomplishment of the departments is directly related to the commitment from the top of their particular department, from the Secretary.

Mr. RUSH. Absolutely.

Mr. SMITH. And I am going to avoid answering your question directly as much as I can. But this is the way I kind of look at it. I met with Steve [Mr. McSpadden of the subcommittee staff] preliminary to the hearing and we sat down and talked. And I said, you know, there seems to have been a tremendous void that took place for—the magic number is I believe 12 years—and during that period, it was almost like going back to business as usual. And as I alluded in the testimony, I said until such time as there is really an articulation from the very top, the chief executive, the President, with all of his cabinet people saying this is what I want and this is what I want to achieve—I saw the dynamics of that take place in 1977 and there was a lot of weeping and wailing and gnashing of teeth, but the job was beginning to get done. After that, it became unpopular to talk about goals, it became unpopular to talk about set-asides because everything was viewed in a context of maybe reversing the trend. But then after the 1980 election, it seemed like once again the fox was given the chicken coop and allowed to do basically what they wanted to do.

But yet, even in spite of that, agencies like GSA, for example, have tried to turn around and overcome that, but many, many of the agencies we run into, we run into the resistance, and it is not at the top, it is in the middle. And it is an entity in the middle, an individual who holds the title of contracting officer. The contracting officer wields an inordinate amount of power in these agencies, and their word is law, their word is gospel, and as they say, that is as it is going to be. Until such time as some area of appeal or there is at least some articulation again from the top down, then that contracting officer is going to do what they bloody feel like doing. They will say I have a warrant unlimited to obligate the government for zillions of dollars and I am not going to jeopardize my warrant by getting involved in contracts with people who may not be able to deliver on time, for people who may not be totally financially capable, people who do not have all the experience that they need. But by God, that is the very definition of the people that are in the 8(a) program. So somehow or another, there has to be a coming to grips with the fact, if we had people that were totally on board, we would not need an 8(a) program, period. And you and I both know that that is not the case.

So the agencies again will do what they are told to do, they will do what the marching orders are. Some will voluntarily do the thing to the spirit and others you have to kind of drag them to the front line.

Mr. RUSH. Earlier testimony indicated that as a part of the notification process, that the SBA is integrally involved in the notification process, that you have to notify the contractors. And a lot of times by the time contractors or potential contractors get notified, it is too late for them to bid on the contracts. Can you address that concern?

Mr. SMITH. That is a concern, especially if it happens to be one that is going to be in the competitive arena. And another thing is, as somebody had mentioned, I do not think it myself, but it was mentioned that once it appears in Commerce Business Daily, maybe it is all over by that time, somebody has already decided which way they want to go and maybe people already have got bids

in, who knows. One of the advantages of the 8(a) program, and again working closely with the buying activities, is that we get clued in on some of the contract opportunities that are coming down the pike and we know to look out for them. So that is when we sent out our letters requesting consideration that that contract be put in the 8(a) program. We also do it from the Commerce Business Daily as well.

But some of them come out under a short timeframe and I do not know what can be done about that.

Mr. RUSH. Mr. Peale, I have a question relative to Hines VA Hospital. The subcommittee has a letter dated February 6, 1992, from you to a senior VA official in Chicago, which discusses the small number of 8(a) contracts for the Hines Medical Center, and the letter asks at several points that VA identify problems in receiving 8(a) set-asides and to ask the VA to work together to make sure that the program was more acceptable. How did VA respond to that letter and did they have any concerns and what were those specific concerns?

Mr. PEALE. No meeting ever took place. Are you talking about now the general letter to the Director talking about the 8(a) program?

Mr. RUSH. The letter dated February 6, 1992, from Mr. Donald P. Dotson.

Mr. PEALE. OK. No meeting ever took place. I guess the VA at the time was still going through reorganization. There were also some changes going on with top management at that VA. I was not in the office and they talked to one of my counterparts and we decided that it would not be in our best interest to have a meeting, so no meeting was held.

Precedent to that, I have been out to the VA on a number of occasions. I think it was back in September or October of 1991, I and a couple of my staff people put on a 4-hour training session for about 110, 120 contracting people, purchasing agents and various VA people that were involved in the procurement process. Since that time, almost 2 years, we really have not seen a whole lot of increased activity in certain area. Certain parts of the VA are supporting us and certain parts are not.

Mr. RUSH. Would the VA want to respond to that? Specifically address the issue of the Hines Hospital, if you would.

Mr. DENNISTON. Sure, thank you.

The training that Mr. Peale discussed, was not with the VA Hines Hospital, it was the VA National Acquisition Center, which is an entirely different ball game in that the National Acquisition Center buys centrally all of the pharmaceuticals, drugs, medical/surgical supplies, nonperishable food items that we use along with major medical supplies throughout the hospital system. That has not been an area where we have had great penetration through the 8(a) program. My opinion of that is generally because of the types of products and the volume that they buy. If you look at the statistics of the National Acquisition Center versus the Defense Personnel Center in Philadelphia, which is very similar in the types of commodities that are purchased, our numbers are almost neck and neck, because we compare those to see who is doing best.

At the individual medical centers in the Chicago area, of which there are five, Gary's comment is well taken from the standpoint that yes, we have some that are very supportive of the 8(a) program, we have some that are not as supportive as we would like to see. Mr. Smith mentioned the fact though of the all powerfulness of the contracting officers. That is absolutely true, and what needs to be done, as Mr. Smith says, there has got to be top-down interest in the programs.

An anecdotal story to let you know where we stand, under the previous administration, the Administrator of SBA came to VA, met with our Secretary at that time, to talk about how VA and SBA could work better together and when she [the Administrator] was done with her discussion, the Secretary said that in his opinion, SBA and SBA programs were the biggest waste of taxpayers money we had in the government, as opposed to our current Secretary who has taken an absolute personal interest in all the small business programs. And I think that what you are going to find is that VA's performance nationwide is going to show a dramatic increase, again because the contracting officers now realize that this is a priority from the top.

I also believe that contracting officers, as part of their performance plan, should have performance against the socioeconomic goals as one of the criteria that they are measured against for performance. I also think that that should be one of the criteria that is in the plans of all of the heads of the contracting activities, not only the contracting officers but their management. And we are working in that direction.

Mr. RUSH. Now the Hines Hospital, how many minority contracts were let relative to the Hines Hospital?

Mr. DENNISTON. At the hospital itself?

Mr. RUSH. Yes.

Mr. DENNISTON. At the Hines Hospital for fiscal year 1991, 1 percent of their total procurement went to minority-owned firms. In fiscal year 1992, that was 5 percent. So far for fiscal year 1993, halfway through the year, we are back down to 1 percent.

Mr. RUSH. Back down to what?

Mr. DENNISTON. One percent.

Mr. RUSH. So notwithstanding the confusion about the agency, there is still a problem at Hines Hospital in terms of minority contracting, is that right?

Mr. DENNISTON. I am not sure I agree with that. And the reason I say that is because again, remember that the preponderance of our 8(a) work is through construction. The vast majority of our construction work, because of the way that our budgetary cycle is set up, is not awarded until the fourth quarter of the fiscal year. And in a letter that had been sent asking us to be in a position to respond to particular offering letters, there is one that is going to SBA this week from the Hines Hospital. So again, I think at the end of the year, we are going to see an improvement.

Mr. RUSH. I am going to monitor this fairly closely. OK? Because I am really concerned about the opportunities at Hines Hospital for minority and women-owned businesses. And will you keep me informed in terms of what your results are?

Mr. DENNISTON. Absolutely, be glad to.

Mr. RUSH. And if you have problems, will you let me know about whatever problems you might have?

Ms. JACKSON, this will be my final question. Earlier testimony indicated Federal agencies, including GSA, discourage MBE's and WBE's from submitting bids by making 8(a) contractors obtain information through the SBA. Can you—I asked Mr. Smith about that and I would like to get your—

Ms. JACKSON. GSA publishes a forecast which lists the procurements targeted under the 8(a) program or as a small business set-aside. The 8(a) companies can use this document to market GSA. We receive a substantial number of search letters, however, often they do not identify specific requirements or it is a search letter for something that we do not buy. If Section 8(a) firms use the forecast to identify contracting opportunities, they will have a better chance of identifying 8(a) contracting opportunities and winning awards.

Mr. RUSH. How do you feel about the proposal to have a centralized procurement entity within the Federal Government?

Ms. JACKSON. I would not agree with that. The agencies are just too diverse. GSA has the third largest procurement budget among the Federal agencies. I find that we are buying the products and services that most small businesses are marketing. Once again, we are doing about 42 percent to small business and about 8 percent to minority businesses. We have doubled our dollars over the last 2 years. We are looking to increase our dollars with minorities and women even more.

Mr. RUSH. So you are headed in the right direction.

Ms. JACKSON. Yes, I think we are headed in the right direction.

Mr. RUSH. This concludes—hold on for just one moment.

[Pause.]

Mr. RUSH. Let me ask you this. There is an idea that is floating about getting the Office of Federal Procurement within OMB involved in terms of a centralized data base and a common certification standard. What do you think about that?

Ms. JACKSON. I would agree with the standard certification process.

Mr. RUSH. A standard certification process?

Ms. JACKSON. Yes, so that minorities and women would be considered together or separately. I think in some agencies women are considered minorities, in other agencies, they are not. So I would like to see something standard throughout the agencies. As far as a standard data base? Yes, we use the PASS, we use MBDA's ABLE system, but we have other directories that we use to identify small minority and women-owned businesses. We also identify companies from outreach efforts. We have an extensive outreach program and we interface annually with millions of small minority and women-owned businesses. So we do not have a problem identifying companies.

Mr. RUSH. OK. Thank you very much, and I want to thank this panel. Again, you have had some really key insights for us and obviously time does not permit the subcommittee to follow upon a number of points and to clarify everything. Accordingly, in all likelihood we will be sending some letters requesting supplemental information for the hearing record and we would appreciate your providing this information shortly thereafter.

The subcommittee staff will work closely with my staff on this and other matters as it pertains to the subject matter of this particular hearing.

I thank you for your anticipated cooperation with this, and again I thank you for taking the time out from your schedule to give us your insights into this particular problem. And I want to thank all the witnesses who have participated with us today. Again, it has been illuminating, to say the least, and we have some clear direction in terms of what we have to do as a Congress in terms of trying to rectify the situation relative to minority and women-owned businesses.

This hearing is hereby concluded and adjourned. Thank you.

[Whereupon, at 1:31 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

APPENDIX 1.—SUBCOMMITTEE'S AUGUST 5, 1993, LETTER TO THE SMALL BUSINESS ADMINISTRATION, AND THE SBA'S OCTOBER 25, 1993, AND NOVEMBER 24, 1993, RESPONSES THERETO, TOGETHER WITH (A) SUBMISSION OF DATA ON FEDERAL AGENCY SECTION 8(a) PROCUREMENT, (B) SBA'S SEPTEMBER 22, 1993, CONGRESSIONAL TESTIMONY, AND (C) OTHER CORRESPONDENCE

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August 5, 1993

Hon. Erskine Bowles
Administrator
U. S. Small Business Administration
409 Third Street, S.W.
Washington, D.C. 20416

Dear Erskine:

Thank you for your letter of June 26, 1993, and for the SBA's cooperation during this Subcommittee's recent hearing in Chicago and its oversight of problems confronting minority and women-owned small businesses. The SBA's contribution, especially the testimony of SBA District Director John Smith, was very important to the success of that hearing.

I would appreciate your help in obtaining certain information relevant to our hearing. The Subcommittee staff will begin shortly to draft a comprehensive committee report, and we need this information in order to fully develop the proposed findings and recommendations for that report.

Accordingly, the Subcommittee would appreciate receiving the following information:

- (a) a summary of SBA's efforts in Chicago and also at headquarters to obtain more 8(a) contracts from Federal procurement agencies,
- (b) SBA's response to reasons given by other Federal agencies for setting aside fewer rather than more 8(a) contracts and these agencies' specific recommendations for changes in the implementation of the 8(a) program,
- (c) the impact of staffing shortages on SBA's administration of the 8(a) program nationally and in Chicago and any proposed staffing reallocations,
- (d) the amount of direct financial assistance to 8(a) firms in FYs 1992 and 1993,
- (e) the administrative (as opposed to legislative) changes under consideration or planned for the 8(a), 7(j), and the surety bond programs,
- (f) the percentage of 7(j) technical assistance allocated to 8(a) firms in Chicago and nationally and any proposals for improving such assistance,
- (g) any proposals for increasing the utilization by 8(a) firms of the SBA surety bond program in the Chicago region and also nationally, and
- (h) SBA's response to GAO's recommendations in its January 1992 report on the Section 8(a) program.

The Subcommittee staff will accommodate the SBA, if any of the above is unduly burdensome to provide, but we do need this kind of information to complete our examination.

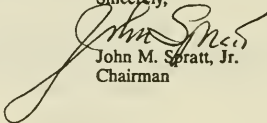
Some of the above points were to be covered during the hearing. While the testimony did touch on some of the above issues, it did not fully address a number of them, including the improvements proposed by representatives from the General Services Administration, the Department of Veterans Affairs, and the Department of Housing and Urban Affairs (HUD's letter has been enclosed).

I recognize that the SBA wishes to propose legislative changes, but has not yet obtained OMB clearance. Once the SBA obtains such clearance, I would appreciate receiving them. I would also appreciate receiving any SBA proposals for changes to these SBA programs which do not require OMB approval, i.e. administrative or other non-legislative changes.

Your staff should contact Subcommittee senior counsel Stephen McSpadden should there be any questions or suggestions. It would be most helpful if the SBA could submit this information by the end of September. Again, thank you for your cooperation and support in responding to this request, which I hope will not be unduly burdensome.

Once again, when both our schedules permit, I would like to get together with you.

Sincerely,



John M. Spratt, Jr.
Chairman

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416



OCT 22 1993

OCT 25 1993

Honorable John M. Spratt, Jr.
Chairman
Subcommittee on Commerce, Consumer, and
Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

COMMERCE, CONSUMER AND
MONETARY AFFAIRS SUBCOM

Dear Mr. Chairman:

Thank you for your letter of August 5, 1993 to Administrator Erskine Bowles concerning the Chicago hearing. We are pleased to submit the information you requested and we hope you will find this material helpful.

For your information, I am also enclosing a copy of the joint statement submitted by Erskine B. Bowles, Administrator, and Judith A. Watts, Associate Administrator for Minority Small Business and Capital Ownership Development (MSB&COD) when they testified before the U. S. House of Representatives Committee on Small Business on September 22, 1993. This statement provides the U. S. Small Business Administration (SBA) response to the recently released General Accounting Office (GAO) follow-up report on the MSB&COD program.

We are anxious to work with the Congress, as well as representatives of other federal departments and agencies, and our customers, the principals of current and potential 8(a) firms, to address the concerns raised in both GAO reports and in other critiques of the 8(a) program.

When Administrator Bowles testified on September 22, 1992, he outlined the four goals we wish to achieve in implementing 8(a) program changes. They are:

- (1) eliminating unnecessary paperwork and overly bureaucratic regulation so that we can also reduce program application processing time and better serve our customers;
- (2) reducing the burdensome reporting requirements for 8(a) program participants so they can spend their time doing the more important task of managing their businesses;

Honorable John M. Spratt, Jr.
page 2

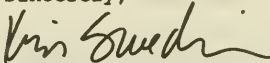
- (3) improving the technical assistance provided to program participants so that these small businesses will have a better chance to survive and then grow and prosper;
- (4) encouraging other government agencies to provide greater contracting opportunities for 8(a) program participants and other small disadvantaged businesses and thereby increase the possibility of enhanced revenues for our customers -- the disadvantaged owners of small businesses.

We know that the MSB&COD program cannot be all things to all people and getting that message across is one of the challenges we face today. However, if we can give better business development advice and work with other federal departments and agencies to use the 8(a) program as it was intended, then we will have achieved a measure of success.

The 8(a) program is designed to assist the developmental of small businesses owned by socially and economically disadvantaged individuals for a fixed nine year program term. There are many misperceptions about the 8(a) program and problems within the program that go beyond our problems of processing applications in a timely manner or imposing burdensome paperwork requirements. Mr. Bowles has made it an Agency priority to reshape the 8(a) program to make it provide more meaningful business development assistance to the many current and potential 8(a) program participants, and to the scores of contracting personnel at the various procuring agencies who are our partners in this critical business development effort.

We hope that the information that we are providing will be of interest and assistance to you. We want to assure you that Mr. Bowles has made the revitalization of the MSB&COD program one of his highest priorities. If you have any suggestions to offer as we set about the arduous task of designing a new 8(a) program, please let us know.

Sincerely,



Kris Swedin
Assistant Administrator
for Congressional and
Legislative Affairs

INFORMATION REQUESTED BY
U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT OPERATIONS,
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS
(Submitted October 20, 1993)

(a) A summary of SBA's efforts in Chicago and also headquarters to obtain more 8(a) contracts from Federal procurement agencies.

Marketing of 8(a) firms and the 8(a) program by SBA is an ongoing activity of both the Central Office and field office staffs. At Central Office this activity is pursued through regular meetings with personnel from the Offices of Small and Disadvantaged Business Utilization at all federal departments and agencies. In addition, we hold a regular meetings of the Minority Trade Association Roundtable to discuss problems, share ideas, and discuss procurement opportunities and practices of the various federal departments and agencies. We also hold a number of national conferences each year where federal departments and agencies send procurement staffpersons to answer questions and explain the appropriate steps for a firm to take to pursue contracting opportunities. Among these conferences are the 8(a)/SDB Annual Trade Fair and Training Symposium, and the annual Minority Enterprise Development Week. In addition on an ad hoc basis, Central Office participates and assists in a number of seminars each year sponsored and presented by trade associations such as the National Contract Management Association, the Latin American Management Association, and the National Minority Business Association. SBA also attends seminars sponsored by individual departments and agencies where business development and marketing opportunities at the various agencies are discussed.

SBA representatives in Region V are also heavily involved in efforts to market the 8(a) program and firms in the local 8(a) portfolio. For example, the Assistant Regional Administrator for MSB&COD is a member of the North Central Small Business Council (NCSBC). The NCSBC, sponsored by the Department of Defense, was established to bring together small business specialists throughout the government to provide a forum to educate and train its members to discuss problems regarding small disadvantaged business. The NCSBC provides an excellent opportunity to meet face to face with other government representatives and to develop relationships for future marketing activities. In addition, during the last two years, the Regional Office has mailed out to various buying activities detailed capability brochures for 92 firms in the Chicago District Office 8(a) portfolio. This is in addition to the regular, on-going marketing efforts of the district office personnel.

You specifically asked questions regarding the relationship between SBA and the Department of Housing and Urban Development (HUD). My local staff has informed me that the information contained in your letter is accurate. However, we would point out that many of the instances cited occurred in the middle 1980s, nearly a decade ago. Also, because some facts were not provided it appears that our local 8(a) participant firms were not competitive. For example, we believe that it is unfair to compare a negotiated price (that is, the price agreed to by HUD and the 8(a) contractor) for a firm's third (3rd) year of performance on a contract to a bid for the first year of performance on the low bid which was not necessarily the fair market price. In addition to the obvious possible disparity between a low bid and the fair market price, such comparison does not give consideration to the fact that a bid for the 3rd year of performance of a contract would necessarily include higher fringe costs, including raises and vacations. The Region V staff has informed me that it has not enjoyed a fully satisfactory relationship with HUD for more than five years. One circumstance that serves to illustrate the problems that SBA has encountered in trying to place 8(a) contracts with HUD is the fact that, during the last two years, HUD has failed to respond to more than 50% of SBA's requests that HUD consider specific procurement opportunities for the 8(a) program.

The efforts of personnel in the Chicago District Office to market 8(a) procurement opportunities with federal departments and agencies include the following:

- (1) Conducting On-site Training -- Providing briefings for and visiting federal procurement officials at Army Corps of Engineers Louisville-Kentucky, Army Corps of Engineers St. Louis-Missouri, Army Corps of Engineers Chicago-Illinois, Great Lakes Naval Training Center, the Department of Veterans Affairs (VA) Medical Center Hines-Illinois, VA Medical Center, North Chicago, VA Contract Service Center, Milwaukee-Wisconsin, 928th Air Reserve-O'Hare, and HUD-Chicago Regional Office.
- (2) Participating in Procurement Opportunity Fairs with Federal Procurement Agency at NASA Procurement Conference-Rockford, IL; Business Fair Collinsville, IL; Chicago Business Opportunity Fair; Black Business Expo-Chicago, Illinois; Chicago Small Business Expo; Black Enterprise National Entrepreneurial Conference; U.S. Postal Service's Outreach Conference; and Chicago Regional Purchasing Council Public/Private Partnership Conference.
- (3) Membership by the Chicago District Office in the Minority Business Opportunity Committee (MBOC) -- The MBOC is a chartered member of the Chicago Federal

Executive Board. Its membership includes federal, state, and local procurement officials. The monthly meetings serve as a forum enabling interaction with other federal departments and agencies, and the minority community on efforts to procure goods and services.

- (4) Holding Annual Briefings for current and potential 8(a) participants in the geographical area serviced by the Chicago District Office -- the briefing includes workshops on eligibility, marketing, financing and partnering. Participants include personnel from SBA's Central Office and the Chicago District and Regional Offices, and representatives of 8(a) firms and federal procurement agencies.

Perhaps one of the most challenging aspects of the 8(a) program to an 8(a) participant is the concept of self-marketing. That concept is part of the long-term partnership (defined early in the relationship) between the SBA and the 8(a) participant. As a first step in marketing any procuring activity, the 8(a) firm should become familiar with the goods and services that the procuring activity buys, where they are purchased and the aggregate dollar volume of purchases in a given area. It is important that the 8(a) firm develop a thorough understanding of the procuring agencies' requirements (i.e., know your customer) and that the firm's capabilities can meet those requirements (i.e., know your company.) In addition, the 8(a) firm should have knowledge and understanding of the federal procurement process. The intent of the self-marketing concept is that the 8(a) participant take the lead to self-market his/her firm to federal buying activities, while the SBA district field office provides the 8(a) firm with assistance. The crux of the business relationship with respect to self-marketing and fulfilling contractual obligations is intended to be between the 8(a) firm and the buying activity. Recognizing the legal and bureaucratic complexities of the federal procurement process, SBA's role is to intervene when assistance is required.

(b) SBA's response to reasons given by other Federal agencies for setting aside fewer rather than more 8(a) contracts and these agencies specific recommendations for changes in the implementation of the 8(a) program.

We agree with many of the points raised that have been critical of the shortcomings of the 8(a) Program both by Federal departments and agencies and by 8(a) participants. In my September statement to the U. S. House of Representatives Committee on Small Business, I said that although the 8(a) program may not have been a priority for previous Administrators,

it is a priority for me. I also told the Committee that SBA has already begun the arduous task of reinventing the program.

It is not true that all agencies did not meet goaling requirements for fiscal year 1992. Some agencies exceeded their goals, while others met their goals, but clearly have the capability to establish more aggressive targets. During our hearing, John LaFalce, Chairman of the House Committee on Small Business indicated that he wants to devise a strategy to encourage better 8(a) program support from those agencies that did not meet their goals for fiscal year 1992. These include: the Departments of Agriculture, Defense, Education, Housing and Urban Development, and Labor; the Environmental Protection Agency, the General Services Administration, the National Aeronautics and Space Administration and the Tennessee Valley Authority.

(c) The impact of staffing shortages on SBA's administration of the 8(a) program nationally and in Chicago and any proposed staffing reallocations.

Over the past fiscal year, the Chicago District Office has been operating with only one BOS instead of the four it had been allocated. With a staffing shortage of 75% in the MSB function, and a 35% shortage in overall SBA staffing, service delivery has suffered, both programmatically and quantitatively.

As you are aware language in the Conference Report to Public Law 100-656 suggested that an appropriate ratio of Business Opportunity Specialists (BOSs) to 8(a) participant firms being serviced is 1 to 20. The report did not suggest any ratio of BOSs to contracts. Since SBA delegates the administration of 8(a) contracts to the procuring personnel at the awarding agency, this ratio may be less important than the ratio of BOSs to participant firms serviced. If we were to establish a ratio of BOSs to 8(a) contracts, such ratio should optimally depend on the complexity of the contracts, since this can vary widely depending on the goods or services being procured and the procurement type selected by the Federal agency.

Data on the ratio of BOSs to program participants is kept by region. According to the most recent report to Congress regarding the ratio of 8(a) firms to BOSs (August 1993), SBA's Chicago Region had 420 firms being serviced by 15 BOSs. This translates to about 27 firms per BOS. The National average was about 30 firms per BOS. So, the Chicago Region is slightly better than the ratio nationwide.

Under the current Agency structure, total personnel resources are allocated to the region by Central Office, but the actual distribution of these resources between the various SBA

programs is controlled by the regional and district office managers. The Associate Administrator for Minority Small Business and Capital Ownership Development can suggest appropriate staffing levels for the MSB&COD program, but she has no authority to mandate that more BOSSs be hired in a particular local office.

I want to assure you, however, that I am committed to providing the best possible service to all individuals and firms seeking to use not only the MSB&COD program, but all other programs of the Agency. Since our customers are directly served at the district office level, this is where the greatest concentration of our resources need to be. Therefore, with my staff, I have been developing a restructuring plan for SBA that is designed to move personnel and other resources to the districts. To accomplish this goal, my proposed plan calls for moving approximately 150 personnel slots to the district offices and moving a number of personnel slots now in the regions to the districts. This proposal has been forwarded the President of review, and is in discussion with the appropriate Congressional committees. We will provide additional information on this plan as it progresses.

(d) The amount of direct financial assistance to 8(a) firms in fiscal years 1992 and 1993.

In fiscal year 1992, \$50.6 million was provided to 8(a) firms through the 7(a) loan program, including 31 8(a) direct loans valued at approximately \$4.9 million.

As of August 31, 1993, for fiscal year 1993, 8(a) firms had received 29 8(a) direct loans valued at approximately \$4.8 million. In addition 56 program participants had received other loans under the 7(a) program. SBA's share of these loans is \$12.2 million.

(e) The administrative (as opposed to legislative) changes under consideration or planned for the 8(a), 7(j) and surety bond programs.

I have charged my staff with re-examining the 8(a) program from the top to the bottom and designing a new program that better meets the needs of minority-owned small business concerns, and the federal agencies that are our procurement partners. When I testified before the House Committee on Small Business, I promised to have a preliminary blue print for the new program by early next year. In addition to this major overhaul effort, we are planning immediate administrative changes that will provide short term improvement to the program. These changes include:

- Centralizing the application process to provide more timely processing of program applications;
- Completing the new MSB&COD automation system already in progress; and
- Refocusing and concentrating 7(j) resources to a targeted population and more specific topic areas of assistance.

The only currently proposed change to the Surety Bond Guarantee (SBG) Program involves possible changes to existing size standards for the program. On August 27, 1993 SBA published, for public comment, a proposed rule that, if finalized, would increase the size standard for the SBG Program to \$6.0 million in average annual receipts from the existing \$3.5 million. It is anticipated that this increase would increase the number of small businesses eligible for assistance under the SBG Program.

(f) The percentage of 7(j) technical assistance allocated to 8(a) firms in Chicago and nationally and any proposals for improving such assistance.

The Chicago District receives approximately 18.5 percent of the Region's 7(j) budget for task order services (approximately \$125,000 per year) and approximately 30% of the ongoing services awards for Business Plan assistance and strategic planning (approximately \$30,000 per year).

As noted above, we are currently looking at ways to improve services delivered through the 7(j) program. For example, we want to specifically target 7(j) assistance to 8(a) program participants. In addition, we want to supplement our one-on-one task order type services with a greater variety of seminar-type training, and greater utilization of commercially available training opportunities, including those offered by institutions of higher education across the country.

(g) Any proposals for increasing the utilization by 8(a) firms of the SBA surety bond program in the Chicago region and also nationally.

SBA has implemented outreach efforts designed to increase the use of the Surety Bond Guarantee Program by 8(a) firms by increasing awareness of the program. Regional Offices conduct bonding seminars and training sessions to educate both the public and SBA employees about the program. Recently a member of the MSB&COD staff participated in the annual Surety Bond National Training Conference to explain the 8(a) program to regional and

Central Office staffs. In addition, to encourage more minority participation in the Surety Bond Guarantee Program, bonds provided to minority owned firms may receive a ninety percent, rather than eighty percent guarantee.

(h) SBA's response to GAO's recommendations in its January 1992 report on the Section 8(a) program.

For this response please see the September 22, 1993 testimony of Ms. Watts before the U. S. House of Representatives Committee on Small Business, beginning on page 22.

8(a) SHARE OF FEDERAL PRIME CONTRACTS
BY MAJOR FEDERAL AGENCIES
FY 1992
(in Millions of Dollars)

	1992 Actual Awards			Agency Goal
	Total Dollars	8(a) Share Dollars	8(a) Share Percent	
TOTAL	180,382.7	4,911.0	2.7	2.7
Department of Agriculture	3,374.8	81.4	2.4	2.7
Department of Commerce	727.3	54.2	7.5	4.5
Department of Defense	117,151.0	2,597.5	2.2	2.5
Department of Education	284.2	17.2	6.0	9.0
Department of Energy	18,147.4	307.5	1.7	1.4
Department of Health and Human Services	2,570.7	237.8	9.2	8.7
Department of Housing and Urban Development	739.2	22.1	3.0	9.0
Department of the Interior	1,369.0	106.8	7.8	6.0
Department of Justice	1,755.5	126.1	7.0	4.0
Department of Labor	783.3	20.7	2.6	2.8
Department of State	594.4	84.3	14.2	8.0
Department of Transportation	3,598.8	430.4	12.0	11.0
Department of the Treasury	1,232.4	148.1	12.0	5.6
Department of Veterans Affairs	3,740.7	68.6	1.8	1.7
Environmental Protection Agency	1,348.0	59.1	4.4	8.5
General Services Administration (Federal Supply Schedule)	2,968.6	1.8	0.1	0.1
(Non-Federal Supply Schedule)	5,735.7	142.6	2.5	2.7
National Aeronautics and Space Administration	10,527.0	232.0	2.2	2.3
Tennessee Valley Authority	2,200.0	9.4	0.4	1.0
All Others	1,534.7	163.4	10.6	7.9

Note: Dollar or percentage figures may vary slightly because of rounding or necessary corrections of figures submitted in year-end reports by some federal agencies. Information not given in written reports was obtained by telephone.

Source: U.S. Small Business Administration, Office of Procurement Assistance, unpublished data, 1993.

SDB SHARE OF FEDERAL PRIME CONTRACTS
BY MAJOR FEDERAL AGENCIES
FY 1992
(in Millions of Dollars)

	<u>1992 Actual Awards</u>			<u>Agency Goal</u>
	<u>Total</u> Dollars	<u>SDB Share</u>		
		Dollars	Percent	
TOTAL	180,382.7	3,834.9	2.1	2.3
Department of Agriculture	3,374.8	56.4	1.7	2.5
Department of Commerce	727.3	18.6	2.6	2.5
Department of Defense	117,151.0	2,597.5	2.2	2.5
Department of Education	284.2	6.5	2.3	2.0
Department of Energy	18,147.4	382.3	2.1	2.5
Department of Health and Human Services	2,570.7	89.9	3.5	4.0
Department of Housing and Urban Development	739.2	68.7	9.0	8.3
Department of the Interior	1,369.0	50.3	3.7	4.0
Department of Justice	1,755.5	51.1	2.9	2.0
Department of Labor	783.3	35.7	4.6	6.5
Department of State	594.4	21.0	3.7	2.6
Department of Transportation	3,598.8	57.4	1.6	1.0
Department of the Treasury	1,232.4	25.5	2.1	1.2
Department of Veterans Affairs	3,740.7	57.3	1.5	1.7
Environmental Protection Agency	1,348.0	24.1	1.8	2.0
General Services Administration (Federal Supply Schedule)	2,968.6	11.6	0.4	1.1
(Non-Federal Supply Schedule)	5,735.7	146.6	2.6	2.0
National Aeronautics and Space Administration	10,527.0	41.9	0.4	0.6
Tennessee Valley Authority	2,200.0	33.7	1.5	2.3
All Others	1,534.7	58.8	3.8	2.7

Note: Dollar or percentage figures may vary slightly because of rounding or necessary corrections of figures submitted in year-end reports by some federal agencies. Information not given in written reports was obtained by telephone.

Source: U.S. Small Business Administration, Office of Procurement Assistance, unpublished data, 1993.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416



Honorable John M. Spratt, Jr.
Chairman
Subcommittee on Commerce, Consumer, and
Monetary Affairs
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

NOV 24 1993

COMMERCE, CONSUMER AND
MONETARY AFFAIRS SUBCOM

Dear Mr. Chairman:

On October 22, the U.S. Small Business Administration (SBA) responded to your request for information pertaining to the Chicago hearing on problems confronting minority and women-owned small businesses.

Subsequent to that request, you asked for clarification and information on several issues which I am enclosing for your review. Specifically, SBA is providing the following:

1. the total number of loans provided to 8(a) firms during FY 1993 under the 7(a) program;
2. a ratio of 8(a) participant firms to Business Opportunity Specialists in the Chicago District Office;
3. statistics on the national 7(j) Management and Technical Assistance Program; figures for FY 1993.
4. the impact of voluntary reassignments on staffing in the Chicago District Office;
5. a summary of the specific changes that SBA will be making under its plan to restructure the 8(a) program.
6. SBA's response to recommendations made by the General Services Administration (GSA) and the Department of Veterans Affairs (VA) regarding the 8(a) program; and

I hope that your concerns have been addressed and the information will be helpful as you develop the hearing report.

Sincerely,

Kris Swedin
Kris Swedin
Assistant Administrator
Congressional and Legislative
Affairs

Enclosure

FOLLOW-UP INFORMATION ON THE 8(a) PROGRAM
 PROVIDED FOR THE HONORABLE JOHN SPRATT
 (Submitted 11/22/93)

1. Total loans provided to 8(a) firms during FY 93 under the 7(a) loan program:
 - SBA has not fully reconciled data for FY 93 for 7(a) loans made to 8(a) firms. We will provide this data when it is available.

2. Ratio of 8(a) participant firms to Business Opportunity Specialists in the Chicago DO:
 - 66 to 1 (There are currently 2 BOS's handling the portfolio in the Chicago DO of about 132 firms.)
 - Between January and April, 1992, the Chicago DO "lost" three BOS' to retirement. It should be noted that these retirees carried with them valuable corporate knowledge of the program and experience. The positions were not immediately filled due to an agency-wide hiring freeze. In May, 1993, the DO hired an individual to fill one of the vacancies. The new hire is not as experienced as the BOS' who retired and is currently "learning the program."

The Chicago DO portfolio is also served by two Contract Negotiators who answer to the MSB&COD program manager and handle matters related to contract award and administration. The DO is also fortunate to have a Financial Analyst who divides his time between MSB&COD and the Office of Procurement Assistance where he works on issues related to the issuance of Certificates of Competency. The DO also recently hired a Business Opportunity Assistant (now in training) and a clerk to handle automation input requirements and other related tasks for the MSB&COD division.

The Chicago MSB&COD Division currently has 7.5 full-time equivalent positions:

1	Assistant District Director for MSB&COD
2	Business Opportunity Specialists
2	Contract Negotiators
1	Business Opportunity Assistant
1	Clerk
<u>1.5</u>	Financial Analyst
7.5	TOTAL

3. National 7(j) Management and Technical Assistance figures for FY 1993:
- \$7.5 million budget with 130 awards made to 90 providers.
 - During the summer of 1993, we also undertook a pilot project to provide scholarships to allow the top executives of 8(a) firms to attend established graduate level management education programs. Under the pilot, 49 8(a) executives from around the country attended the Minority Business Executive Program, at the Amos Tuck School of Business, Dartmouth College, New Hampshire. Five of the attendees were from firms served by the Chicago Regional Office, although none were firms served by the Chicago District Office. SBA anticipates continuing with similar programs in the future.
4. Impact of voluntary reassignments on staffing in the Chicago District Office:
- No employees were voluntarily reassigned to the MSB&COD program in the Chicago District Office. One employee was reassigned to Chicago in the finance division.
- Nationwide, 20 employees, including 15 professional employees, were approved for voluntary reassignments to MSB&COD positions.
5. A summary of the specific changes that SBA will be making under its plan to restructure the 8(a) program:
- The testimony presented by Administrator Bowles before the U.S. House of Representatives Committee on Small Business on September 22, 1993, describes a number of changes to the 8(a) program which are now under consideration. At this time, we are not able to provide more detailed information on our final plans for the program because we are still in the process of formulating these plans.
- We are currently meeting with 8(a) firms in six cities around the country to solicit their comments regarding appropriate changes to the program. Our goal in holding these meetings, and with our earlier request for written comments about ways to improve the 8(a) program, is to assure that any changes to the program that we propose will be guided by the needs and the concerns of our program customers. Over 60 current and former 8(a) program participants from the Chicago area will have the opportunity to provide their input at a brain-storming session to be held on November 22, 1993.

6. SBA response to recommendations made by the General Services Administration (GSA) and the Department of Veterans Affairs (VA) regarding the 8(a) program:

- As noted in our response to question 5, SBA is currently developing its plans for restructuring the 8(a) program. We will be able to comment more fully on the GSA and VA recommendations when that plan is complete.
- The representatives from both GSA and VA recommended that the current legislatively mandated competitive thresholds be lowered to \$500,000. (GSA testimony page 9, VA testimony page 10)

At present, in accordance with the provisions of Public Law 100-656, requirements that are offered for the 8(a) program must be competed among 8(a) participant firms if: (1) the total value of the procurement, including all options, is estimated to be above \$5 million for requirements classified under manufacturing Standard Industrial Classification (SIC) codes, or above \$3 million for requirements in all other industries; and (2) there is a reasonable expectation that bids or offers will be received from at least two firms, and that award can be made at a fair market price.

As part of its overall examination of the 8(a) program, SBA is looking at the role that competitive awards play in the program. At this time we are not considering lowering the competitive thresholds. We believe that when Congress introduced competition into the 8(a) program, it had two intentions. First, competition was introduced to protect the 8(a) program from abuse such as that which occurred in the Wedtech case. Since the largest 8(a) contracts can no longer be awarded without competition, the likelihood of political favoritism is greatly decreased. Secondly, competition was added to the 8(a) program to allow program participants to gain valuable experience in competing for contracts in the sheltered market of the 8(a) program. The current competitive thresholds serve to meet these intentions. In addition, we note that submitting bids or offers for procurements is a time-consuming and expensive process. We do not believe that it is appropriate to require the expenditure of an 8(a) firm's limited resources for procurements valued at only \$500,000.

- GSA appears to recommend that legislation be enacted to reinstate the 8(a) Business Development Expense program. (GSA testimony pages 9 and 10)

Prior to FY 1989, SBA provided grants to a very small number of 8(a) firms to assist in the performance of a specific Government contract. Under this grant program, called the Business Development Expense (BDE) program, in addition to other uses, SBA infrequently provided funds to pay a "price differential." BDE was used for price differential when the procuring agency and the 8(a) firm could not reach agreement on price. For example, if an agency determined that it could only pay \$3.00 per item for switches, and the 8(a) firm determined that with its production facilities and staff it could produce the item for no less than \$3.25, SBA could use BDE to make up the difference.

The 8(a) BDE grant program was replaced by the 8(a) loan program by legislation in 1988. SBA currently has no authority or appropriation to provide grants to assist contract performance. SBA is not in favor of restoring this program, because of current budgetary constraints and that fact that only a few program participants could be helped.

- GSA recommended that the 8(a) program be structured like the current small business and labor surplus area set-aside programs. Under the GSA proposal, "SBA would certify a firm as minority owned and any firm so certified would then be eligible to compete for procurements specifically set-aside for minorities." (GSA testimony page 9)

SBA does not concur with this proposal as stated. If this proposal were adopted, the business development intent of the 8(a) program would be lost. However, as set forth in Mr. Bowles testimony of September 22, 1993, SBA is in favor of changes that would meet GSA's stated purpose of enhancing the participation of minority business as well as greatly simplifying the current 8(a) process.

First, SBA believes that it should have the authority to delegate contract award and administration functions to Federal procuring agencies so long as the agencies continue to appropriately adhere to 8(a) regulations and the Federal Acquisition Regulation. In the proposal under consideration, SBA would continue to determine the appropriateness of particular procurements for the 8(a) program and to certify a firm's eligibility for the procurement. However, SBA would no longer take the role of the "prime contractor."

Secondly, SBA believes that there should be a Government-wide Small Disadvantaged Business (SDB) Program modeled after the Department of Defense program authorized by section 1207 of Public Law 99-661.

The 8(a) program changes and the creation of a Government-wide SDB program would result in a streamlined 8(a) award process, and would provide greater access to contracting opportunities for all small businesses owned by socially and economically disadvantaged individuals.

- GSA recommended the establishment of a special "8(a) Subcontract Set-aside" program where contracts would be "set-aside or limited exclusively to firms that would agree to subcontract portions of the project to 8(a) certified firms." (GSA testimony page 9)

SBA believes that the establishment of an additional subcontracting program would serve to further complicate existing procurement procedures. This conflicts with the current goal of simplifying and streamlining existing procurement processes. If Congress determines that establishing goals for 8(a) subcontracting would be appropriate, the current small business and small disadvantaged business subcontracting program could be revised to accommodate 8(a) subcontracting objectives.

- GSA recommended that SBA "receive the necessary resources to expand and at the same time increase the accuracy of the Pass [Procurement Automated Source System]..." (GSA testimony page 10)

Information in PASS is updated annually with information provided by the listed firms. Therefore, we believe that there could be only marginal improvement to the quality of the data contained in the system. However, we would welcome any specific recommendations from GSA for ways to improve PASS. We would note, too, that increased funding for the system would allow SBA to enhance its availability to potential users of the system.

- VA made a variety of recommendations related to improving the flow of information between SBA at the local level and the procuring agencies. (VA testimony pages 9 and 10)

SBA generally agrees that it should take a very proactive role in marketing the 8(a) program to Federal procuring agencies, including the local marketing of particular firms to potential buyers. We do send

search letters on behalf of 8(a) firms seeking to have particular requirements set aside for the program, or for a particular program participant, and we do meet frequently with representatives from the various buying activities. Of course, our ability to provide these services is dictated, in large measure, by the resources available in a particular office. For the past several years SBA has also provided to each department or agency Office of Small and Disadvantaged Business Utilization a compilation of data sheets on 8(a) program participants as listed in the PASS system.

This year, we will be improving the quality of the data provided by using individual 8(a) capability statements (SBA form 1815) prepared by each firm. The statements will be grouped by industry, i.e., construction firms, janitorial services firms, etc., and provided to potential users of the firms' products or services. In accordance with the provisions of section 501 of Public Law 100-656, each contracting activity receiving capability statements for 8(a) firms will be requested to provide to SBA its procurement forecast for the upcoming fiscal year, and to specifically identify those requirements which it may consider for award under the 8(a) program.

As previously noted, SBA does not expect to take a more active role in the administration of 8(a) contracts after award. We believe that the procuring agencies are in the best position to handle routine contract administration functions.

-- VA stated that "SBA Business Opportunity Specialists should have a case load that gives them the time to carefully examine each company so that only firms that can successfully perform are referred to contracting officers," and notes that "this would require a more intense business development effort than is currently expended."

We recognize that the limitations on our personnel resources cause many of our Business Opportunity Specialists to carry case loads in excess of the ratio of 1 BOS to every 20 firms as recommended in the Conference Report to Public Law 100-656. We do, however, attempt to match firms with the capability to perform with a particular requirement. SBA believes that the function of determining the capability of performing is a function that is best carried out when both SBA and the appropriate procuring agency personnel work together.

SBA

U.S. Small Business Administration

Washington, DC

20416

STATEMENT OF
ERSKINE B. BOWLES, ADMINISTRATOR
AND
JUDITH A. WATTS
ASSOCIATE ADMINISTRATOR FOR
MINORITY SMALL BUSINESS AND
CAPITAL OWNERSHIP DEVELOPMENT
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

September 22, 1993

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss the U.S. Small Business Administration (SBA) Minority Small Business and Capital Ownership Development (MSB&COD) Program, and particularly SBA's implementation of the Business Opportunity Development Reform Act of 1988 (Public Law 100-656). I am accompanied by Dayton Watkins, Special Assistant to the Administrator, and Judith Watts, Associate Administrator for Minority Small Business and Capital Ownership Development.

Over the years, it appears to me that, clearly, the 8(a) program has not been a priority at SBA.

Let me assure you that the 8(a) program is a priority for me. As a former small businessman, I know how to develop businesses and will use my experience and knowledge to improve the 8(a) program. I want to stress that this is just the beginning of the process. We have now started the process. We have a long way to go, but we will get there, and we will have an 8(a) program that we will all be proud of. I look forward to working closely with you during the next few months to reinvigorate the 8(a) program.

To get things started we are prepared today to do two things in our testimony. First, I will tell you about the initial phase of our plans for improving the 8(a) program. Second, Ms. Watts

will address the concerns raised by GAO and answer the questions in your letter of invitation.

Our program changes have been conceived with four goals in mind:

- 1) eliminating unnecessary paperwork and overly bureaucratic regulation so that we can also reduce program application processing time and better serve our customers;
- 2) reducing the burdensome reporting requirements for 8(a) program participants so they can spend their time doing the more important task of managing their businesses;
- 3) improving the technical assistance provided to program participants so that these small businesses will have a better chance to survive and then grow and prosper;
- 4) encouraging other government agencies to provide greater contracting opportunities for 8(a) program participants and other small disadvantaged businesses and thereby increase the possibility of enhanced revenues for our customers -- the disadvantaged owners of small businesses.

Some of these proposed changes to the 8(a) program are not new to you. You have heard them as ideas championed by your constituents, by officials at other federal agencies and in the report of the Commission on Minority Small Business, which was chaired by Josh Smith, whom I admire and respect greatly. In fact, you have heard some of the ideas proposed by SBA in hearings before this Committee last fall. In addition, you will soon see some of these elements in the SBA section of Vice President Gore's National Performance Review study.

Since my confirmation, I have worked closely with Ms. Watts, Dayton Watkins, and Jane Butler, who has been a champion of the 8(a) program, to develop a plan for the program. In formulating this program, we have considered ideas from all of the sources I just mentioned.

We have now completed the initial phase of outlining the program changes that we believe are essential if we are to improve the quality of the 8(a) program, including service delivery to both 8(a) participants and to federal contracting agencies. Once again, I want to stress that this is only the beginning. We have a lot of work left to do.

Some of the internal administrative changes we want to make can be started right away. However, early next year I want to propose additional changes.

Today, I hope to begin a dialogue about ways that we can work together to solve the problems that have existed in the 8(a) program for a long time. To facilitate this dialogue, I wrote to every one of our approximately 4,500 8(a) program participants and asked them how the program could be improved. We have already met with some of you, and we hope to meet with many more of you during the coming weeks to discuss our proposed changes and the suggestions made by the 8(a) firms and trade association representatives. We are considering their comments as we direct our program changes.

We have received approximately 200 responses to the letter we sent the 4,500 8(a) firms soliciting their opinions on how to fix the program. Following is a summary of the recurring concerns, listed in no particular order:

1. the program imposes excessive paperwork burdens
2. the program is misunderstood and vastly under-utilized and misused by federal agencies
3. the application is too long and the eligibility criteria are not clear
4. there is not enough on-going quality business development assistance

5. there is inadequate staff to meet the needs of participant firms and more assistance is needed to help companies self market procurement opportunities
6. there should be increased access to capital
7. there should be separate opportunities for firms in the developmental and transitional stages
8. there should be a mentor-protege program to foster relationships between newly certified and graduated firms

I assure you we have considered and will continue to consider these constructive criticisms of our program as we work to improve it for our customers.

Our recommendations for changing the 8(a) program do not result in a product that delivers less. Instead, the initial phase of our plan creates a stronger, better system of addressing our customers' needs by making the program easier to enter and use. We are not asking for additional funding, rather, we will use our existing resources smarter and strive to create more contract opportunities for our participant firms.

Now let me tell you more about the goals that we have established and the new 8(a) program that we are beginning to define.

IMPROVING ACCESS TO THE 8(a) PROGRAM

Our first goal is to be more responsive to our customers' needs to provide an 8(a) program that is easier to use and will reduce unnecessary and burdensome paperwork. As a result we will reduce the application processing time.

As you know, current legislation requires that an application be screened for completeness within 15 days of receipt, and be processed with a final decision on eligibility within 90 days of being found complete. You also know that, historically, the SBA has not met these deadlines.

In fact, Mr. Chairman, our actual application processing time is not even as good as that reported in the GAO follow-up report. As of September 14, 1993, 46% of our applications were more than 90 days old. That represents 256 of 554 applications now pending versus 189 of 581 or 33% of the applications that were pending when GAO last examined the process. In reality it takes our customer an inexcusable average of over six months -- 190 days -- just to get into the 8(a) program. Attached is a chart showing the 8(a) applications that are pending.

8 (a) APPLICATIONS PENDING
AS OF SEPTEMBER 14, 1993

<u>0-30</u> <u>DAYS</u>	<u>31-60</u> <u>DAYS</u>	<u>61-90</u> <u>DAYS</u>	<u>91-120</u> <u>DAYS</u>	<u>121-150</u> <u>DAYS</u>	<u>151-180</u> <u>DAYS</u>	<u>>180</u> <u>DAYS</u>	<u>TOTAL</u>
128	79	91	49	52	41	114	554

8 (a) RECONSIDERATION APPLICATIONS PENDING
AS OF SEPTEMBER 14, 1993

<u>0-30</u> <u>DAYS</u>	<u>31-60</u> <u>DAYS</u>	<u>61-90</u> <u>DAYS</u>	<u>OVER 90</u> <u>DAYS</u>	<u>TOTAL</u>
19	28	14	37	98

Program management attributes these delays largely to a loss of staff, an inadequate data processing system, and an awkward staffing structure. We believe that we can begin to give better customer service and reduce processing time through two changes: one, changing the structure of the Division of Program Certification and Eligibility so that it makes more efficient use of remaining personnel; and two, giving the Associate Administrator for MSB&COD authority to allow a specific designee to make eligibility decisions, when necessary.

We propose to make structural changes within the Division of Program Certification and Eligibility (DPCE) by centralizing the eligibility function. In addition to 8(a) applications DPCE also processes other actions such as continuing eligibility reviews, program graduation or termination actions, and decisions on protests and appeals of self-certifications of disadvantaged status made in connection with the Department of Defense Small Disadvantaged Business (SDB) program.

Currently, the DPCE operates with a small Central Office staff of 14 people and five Central Office Duty Stations or CODs located across the country. The Central Office segment of the division, with 14 employees, is currently operating at 75 percent of its FY 1992 staffing level, and the CODs operating duty stations, with 20 people are staffed at 53 percent of 1992 levels.

In my opinion the existing structure is not efficient. Each s(a) application is reviewed twice -- first in the duty station, and later in Washington. The second review has been necessary to maintain the consistent high level of quality necessary to assure that all applications receive fair treatment.

There are two basic options available to address this problem. We can either ask for more money for additional staff, travel, training, and oversight of the CODs; or, we can centralize the operation. Simply to staff the CODs at their FY 92 level of 38 employees, 16 more than presently on staff, would cost nearly an additional \$1.0 million per year.

In these days of deficit reduction, simply asking for more money is not a responsible option. Therefore, last week, I approved a plan that will move personnel slots presently located in the CODs to a central location in the Washington Metropolitan area. This change will not only result in a more streamlined process, reducing the processing time from the current approximately six months to the three months required by the law, but will allow us to provide better staff training and managerial control. It will also result in long-term savings for rent and equipment. We estimate that the proposed consolidation will result in a savings of between \$750,000 and \$800,000 over the next five years. However, this savings will initially be offset

by the one time cost, estimated at \$300,000 to \$350,000, to relocate employees to the Washington area.

We will also examine the possibility of allowing the Associate Administrator for MSB&COD to delegate authority in eligibility decisions to a single responsible program official.

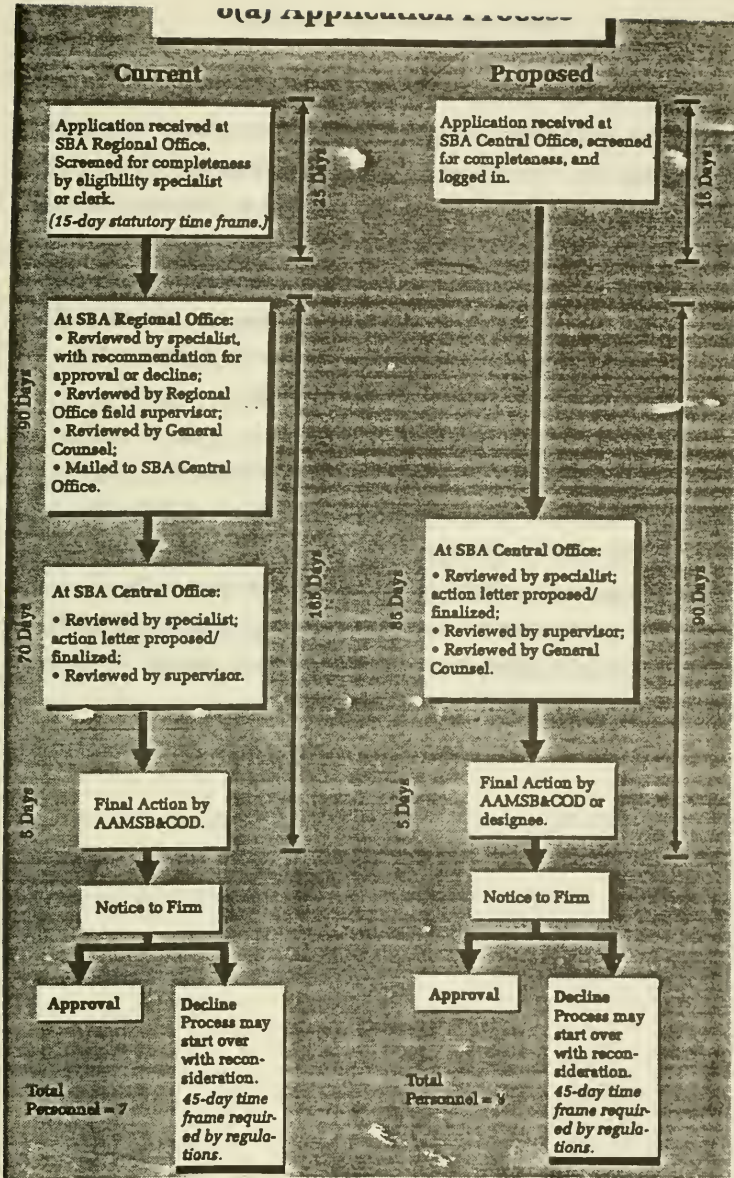
Currently the Associate Administrator must make all program eligibility decisions. I agree that high level review is necessary, but recognize that we must have the ability to expand our capacity to certify applicants if we are to properly serve our customers.

We do not believe that integrity of the eligibility process will be adversely affected by providing the proposed delegation authority. The Associate Administrator will use this authority only when necessary, and will allow eligibility decisions to be made only by a highly qualified senior program employee.

The efficiency of the eligibility process also will be enhanced by completion of the automated Certification Tracking System (CTS), which will provide immediate information about the status of each 8(a) application. This will provide information that is essential to the effective management of this process.

The changes to the eligibility process that I have outlined will improve the quality of the review process and allow us, for the first time, to meet the 90-day time frame mandated for processing 8(a) program applications. A flow chart is attached which graphically depicts the current and proposed 8(a) application processes.

(a) Application Process



REDUCING PAPERWORK BURDEN

To meet our second goal -- reducing the unnecessary paperwork burden we place on our customers and thereby freeing up their time for the more important work of obtaining contracts and managing their businesses -- we are examining all aspects of 8(a) program administration to determine where reporting requirements can be reduced or eliminated. For example, we will require only annual, instead of quarterly, financial statements. We will also look into reducing from two to one the number of times a firm must report each year on fees paid to its representatives.

We are also working to determine where regulatory requirements are burdensome and can be reduced or eliminated. For example, we are considering reducing application documents and reducing the size of the required business plan. In addition, we are looking at ways to streamline the SBA internal procedures and modify competitive business mix, support level and remedial plan requirements.

IMPROVING TECHNICAL ASSISTANCE

We want to provide both more and better quality business development advice to 8(a) firms and thereby greatly enhance the probability that these companies will both grow and prosper. Our target of improving the technical assistance provided to program participants is served by several components in our new 8(a) program plan. Key among these is a more focused use of the 7(j) management and technical assistance program.

Under the 7(j) program, SBA provides management and technical assistance services to socially and economically disadvantaged individuals and businesses, both 8(a) and non-8(a); to low income individuals; and to businesses located in areas of high unemployment or in areas with a high concentration of low-income individuals. Participants in the 8(a) program comprise the largest percentage of 7(j) program users, receiving more than 60 percent of the 7(j) services provided over the past several years. Most of the 7(j) providers are small businesses; some are 8(a) firms.

We believe that we need to provide more technical assistance to 8(a) firms in order to help them develop and prosper. The 7(j) program resources have been reduced over time from a high of \$12 million in 1981 to approximately \$8 million in 1993. We are not asking for more funding for the 7(j) program. We believe,

however, that the best use of the existing limited resources would be to provide management and technical assistance services primarily to 8(a) participant firms. We are, therefore, targeting our services to program participants.

This does not mean that the Agency will no longer provide assistance to non-8(a) firms that are currently eligible for 7(j) services. Non-8(a) firms will remain eligible to participate in many of our group training opportunities. In addition, these firms will find high quality assistance available from other SBA programs, including Small Business Development Centers (SBDCs), Small Business Institutes (SBIs) and the Service Corps of Retired Executives (SCORE).

Historically, 75 to 85 percent of our 7(j) appropriation has been used for one-on-one consulting services. While one-on-one services are valuable to our clients, we believe that they should be supplemented with a more comprehensive program of management and technical assistance. This program would include utilizing America's graduate and professional schools' executive management programs, and providing seminars, which would be conducted by SBA's resource partners such as SBDCs, SBIs, and SCORE. We also would like to develop training through other federal programs such as the Department of Commerce's Minority Business Development Administration and the federal government's executive leadership programs.

An example of working with established graduate school programs took place this summer when SBA provided funding to allow the principals of 49 8(a) firms to attend the highly acclaimed Minority Business Executive Program of the Amos Tuck School at Dartmouth College at a total cost of \$147,000, or \$3,000 per participant. I have heard from many of those who attended this program, and they have been unanimous in their praise for the value of this opportunity. They received truly superior training in such areas as leadership and teamwork, organizational behavior, operations management, marketing, communications, finance, and financial and cost analysis.

Our experience with the Dartmouth program bolsters our belief that 8(a) firms are well served when we provide services in a group setting. We have identified several possible providers of courses like the one at Dartmouth including Clark Atlanta, Penn State, and Boston University. We will continue to explore additional opportunities for training by consulting with our 8(a) firms, our program graduates, and with this Committee.

ENCOURAGING GREATER PARTICIPATION BY OTHER AGENCIES

Our fourth goal is to encourage other government agencies to provide greater contracting opportunities for 8(a) program

participants and other small disadvantaged businesses and thereby increase the probability of higher revenues for our customers.

Critical to achieving this goal is the creation of a government-wide Small Disadvantaged Business (SDB) Program modeled after the program now in effect at the Department of Defense.

Under the SDB program, DOD's goal is to direct 5 percent of its procurement dollars to SDBs, Historically Black Colleges and Universities (HBCUs), and Minority Institutions (MIs). To achieve its goal, DOD is authorized to provide SDB set-asides. DOD also gives a 10 percent preference to SDB bidders on certain solicitations that are being openly competed.

This program would complement the 8(a) program by providing additional contracting opportunities for firms both while they are participating in the 8(a) program and after they leave it. Firms will gain federal competitive experience in an environment where they compete only with other SDBs.

Also important to our achievement of this goal is a future, government-wide use of the Electronic Data Interchange (EDI) in the federal procurement system. This is critical not only to 8(a) participants but also to all small businesses. EDI is an electronic system that will be used by procurement departments to

notify small businesses of federal contract opportunities under \$100,000. Small businesses can not bid on contracts they do not know about. In addition, EDI will allow our customers to bid on these contracts through the same electronic system, to facilitate contract award.

Government agencies will also be encouraged to provide greater contracting opportunities to 8(a) firms if we lessen the paperwork involved in the 8(a) contract award and administration process. To do this, we are exploring proposals to allow SBA to delegate contract award and administration functions to procuring agencies under what we are calling our "Preferred Contracting Authority" program.

As you know, SBA now enters into contracts with federal agencies and subcontracts performance to eligible 8(a) firms. This requires a great investment of time by procuring agency personnel and the SBA.

For example, SBA could enter into agreements with federal agencies and departments to delegate contract award and administration authority to federal agencies. SBA could, however, retain the right to revoke this delegated authority if an agency violated SBA regulations, federal acquisition regulations or other terms of the agreement. SBA could continue to accept contract offerings for the 8(a) program on specified

terms, while allowing agencies to contract directly with eligible 8(a) firms. We could also retain authority to resolve disputes regarding 8(a) contract matters.

We will also examine how to instill more flexibility into the 8(a) competitive process. Under current legislation, manufacturing contracts in excess of \$5 million and contracts in all other industries in excess of \$3 million must be competed among eligible 8(a) firms. After several years of experience with this process we have learned that in 8(a) competition one size does not fit all. Time and again federal agencies have complained that the competitive thresholds are either too high or too low. Therefore, we will be looking at ways to make the competitive process more efficient and more responsive to the needs of our procurement partners so that they will make a greater number of contracts available for our customers.

I have just talked about a number of the 8(a) program changes that we want to make to improve our delivery of services to our customers. I have not mentioned, however, one final element that is critical to the ultimate success of our plans -- the successful completion of the automation system that SBA has been developing for the past several years.

Ms. Watts will provide more detail on the current status of the various components of the system. But, I want to stress how

absolutely essential the success of this system is to the 8(a) program overall. Since its beginnings, the 8(a) program has not had an efficient, reliable management information system. The current system was originally designed as a financial reporting system. It contains only skeletal information on the 8(a) participants and 8(a) contract awards. The system runs on the Agency's mainframe and allows local users almost no ability to manipulate the data that must be input at that level. Because the system is of little use to the field offices, keeping the data current has been just one more paperwork burden for the field staff, with no measurable reward.

This dismal situation is now in the process of being corrected. I assure you that we know how important good data is to good program management. We can not run the 8(a) program when do not have automated access to accurate data on every program participant, every program contract, and every one of our procurement partners. The completed system will provide this critical data, and I have made the successful completion of this system a top Agency priority. Our plans call for spending approximately \$900,000 over the next 2 years to complete this system.

I strongly believe in the 8(a) program changes that I have announced here today. However, you have my pledge that, in looking at ways to improve the 8(a) program, I will not lose

sight of my commitment, nor that of President Clinton, to provide greater access for small businesses owned by disadvantaged individuals. I will not sacrifice efficiency for expediency, and I will not make choices regarding changes just because they are easier, or less controversial.

I will count on your help in making these changes possible. I also promise you that this is just the beginning. Over the next several months, we will be meeting with our customers, 8(a) program graduates, trade associations, representatives of other agencies -- especially the Office of Federal Procurement Policy -- and with Members of this Committee, to discuss ways to improve this program.

Throughout this process, we will be discussing the numerous additional changes related to the 8(a) program to make it more user friendly, cost effective, and highly productive for our customers -- the socially and economically disadvantaged owners of small businesses.

Now I'd like to ask Ms. Watts to address some of the specific concerns raised in the GAO draft report on the MSB&COD program and your letter of June 22nd.

Mr. Chairman and Members of the Committee, it is my pleasure to be here today to provide information relating to the GAO follow-up report, and other matters that are of interest to the Committee.

As you know, the current report is a follow-up to the report issued by GAO in January 1992. The follow-up report acknowledges that SBA has made progress in correcting some of the deficiencies noted in the original report, but notes our continuing difficulties in some areas. Some of the deficiencies were exacerbated by Agency downsizing, but we believe that when our new systems are in place, improved efficiency will more than compensate for reduced staff levels. I will address the six areas discussed by GAO in the order that they appear in the report.

1. The follow-up report indicates that our efforts to automate the 8(a) program have been hampered by a failure to properly plan the redesign of our management information system. In addition, the report notes that the absence of a reliable automation system hampers SBA's ability to provide Congress and its own program managers with timely 8(a) program information.

Although our planning documents are not in the required format, our computer system designers worked closely with the potential users in our field offices to assure that the system

will meet their needs. Overall, the automation plan has been sound, and progress toward full implementation is being made.

The first phase of the Certification Tracking System (CTS) is on-line and in use in the SBA Central Office and in the Central Office Duty Stations. However, it is not yet available for use by our field office staffs in the district and regional offices.

CTS allows SBA to track program applications from the date of initial submission through the final approval or decline decision. The system also captures background information on the firm and its principals that will be transferred to the servicing portion of our automation system and maintained and updated to provide a permanent record of the firm's structure and ownership over time.

GAO's assertion that CTS lacks the capability to identify delays occurring in the review process is not accurate. The CTS system is a database. Since early in the development of the system, we have had the ability to manipulate, sort and report on the data that the system contains. What we could not automatically produce was a formatted report available on a regular basis. Now, however, this deficiency has been overcome. Our Office of Information Resources Management is now using the CTS data to provide monthly application status reports to

MSB&COD. These reports will allow us to better identify where processing delays are occurring. However, just knowing where delays are occurring is not enough. We must also know why delays are occurring.

We have worked diligently to identify where and why delays have occurred and what we can do to prevent such delays from recurring in the future. Our decision to centralize the DPCE function, which Mr. Bowles just outlined for you, resulted from our monitoring of the 8(a) application process.

The first segment of the Servicing and Contracts System (SACS), the servicing component of our automation system, was recently piloted in the Richmond District Office. This system, which will be maintained in each local office, contains critical data on each firm's day to day activities while participating in the 8(a) program participant. This includes, among other things, historical financial data, a compilation of services received by the firm from other SBA programs, and data on contracts offered for, and awarded to the 8(a) firm.

We recently held two national training sessions on SACS for our field staff, and a third training session is scheduled for October. We anticipate that installation of SACS in all field offices will take place during FY 1994.

The GAO report notes that SBA has missed deadlines in submitting its annual report to Congress on MSB&COD program activities. This is correct. However, copies of the report on program activities for fiscal year 1992 were provided to each of you, and to the members of the Senate Small Business Committee in July.

Although the delays which SBA experienced in completing the annual report in a timely manner this year, and in the previous two years, are primarily attributable to the deficiencies in the present automated system, I have asked my staff to compile the required data to provide the fiscal year 1993 report on a more timely basis.

2. The next problem raised in the GAO draft report is SBA's continuing failure to achieve the 90 day processing time frame mandated by statute. GAO indicates that the current 8(a) application processing time exceeds 140 days. This shows a slippage of approximately 23 days when compared to the prior GAO review which reported an average application processing time of 117 days.

As Mr. Bowles has stated, our actual average processing times have increased since the GAO follow-up study was performed. Earlier in this testimony we provided a chart showing the actual aging of 8(a) program applications currently being processed.

The slippage in processing time is directly attributable to two causes: loss of staff and our awkward staffing structure which requires long-distance supervision and necessitates two levels of review at geographically distant locations.

Since October 1, 1991, the Eligibility Division has lost 16 employees directly involved in processing 8(a) program applications in the field offices. Two more will depart within the month. We have also lost another four Central Office eligibility division employees.

Despite these problems, however, I would note that, for several years prior to the enactment of Public Law 100-656 in November 1988, 8(a) application processing time frames averaged 350-560 days. Therefore, although we continue to far exceed the 90 day processing time frame mandated by the statute, we have been able to maintain a much shorter processing time than prior to 1988, with no sacrifice in quality. We believe that centralization of the DPCE function, coupled with effective use of an accurate management information system, will serve to finally resolve the problems noted in the GAO report.

3. The GAO draft report is complimentary of the progress that SBA has made in establishing systems to track the assistance it provides to 8(a) firms under the 7(j) management and technical assistance program. The draft report also notes that SBA has

contracted for the development of a system to measure the ongoing effectiveness of assistance provided under the 7(j) program. Work has now begun on this contract. We will keep GAO apprised of the contractor's progress in this endeavor.

4. The draft report also recognizes that SBA is now tracking the amount of financial assistance it provides to 8(a) firms through its primary lending tools: SBA loan guarantees, 8(a) direct loans, and previously allowed advance payments. It indicates, however, that we do not collect information on financial assistance provided by SBA-sponsored Small Business Investment Companies (SBICs) or the new micro-loan program.

As you know, SBA does not lend directly to businesses under the SBIC or micro-loan programs. We maintain information on the assistance provided by SBA to our intermediaries, and we receive from these intermediaries information related to individual recipients. However, information on individual recipients, 8(a) or otherwise, is not compiled in SBA's national loan accounting system. We have discussed this issue with the managers of the SBIC and micro-loan programs, and they will be examining ways to efficiently capture data on individual SBIC and micro-loan recipients who participate in the 8(a) program.

5. In its prior report, GAO criticized SBA for not taking steps to withhold contracts from, or terminate the participation of,

8(a) firms failing to file new business plans after the enactment of Public Law 100-656. In its draft report, GAO acknowledges that most 8(a) firms now have approved business plans, and that SBA is taking appropriate actions in those cases where business plans have not been submitted.

GAO notes, however, that our ability to perform required annual reviews of the business plans varies among field offices, depending on work load and staffing conditions. This is correct. SBA can not dispute the finding that resource limitations adversely affect our ability to review and update participants' business plans. You may be assured that, as part of the overall restructuring of SBA, we will be reallocating existing personnel to provide better staffing at the point of customer service delivery -- our district offices.

6. Finally, GAO indicates that the dollar value of 8(a) contracts awarded through competition has improved over prior fiscal year levels. We agree with this conclusion. We also note that we are considering proposed changes to the 8(a) competitive process that should serve to further improve the efficiency and use of this process.

When discussing the contracting process, GAO indicates that it believes SBA regulations regarding the application of competitive thresholds to indefinite delivery/indefinite quantity

(IDIQ) type contracts allow agencies to circumvent competition requirements. This contract type is used for procurements when precise quantities and delivery of supplies or services are unknown. For contracts of this type, the procuring agency generally specifies the minimum dollar amount that it has committed to the procurement as well as the total estimated value of the procurement.

For example, an agency may wish to enter into an IDIQ-type contract where it will agree to buy an unspecified number of items over a fixed period of time from a particular 8(a) contractor. When the agency offers the procurement to the 8(a) program, it will tell us the minimum dollar amount that it has committed to spend buying items -- the "guaranteed minimum amount," and it will also give us its estimate of what it actually expects to spend over the life of the contract -- the "Government estimate." These figures can differ by a significant amount.

When attempting to implement the competition requirements of Public Law 100-656, SBA determined that it was appropriate to base the competitive thresholds on the minimum guaranteed amount because there was no certainty that an 8(a) firm would ever realize significant income from the procurement. Despite the soundness of this rationale, SBA is aware that a great potential exists for procuring agencies to use the IDIQ exception to award

contracts on a sole source basis, thus circumventing the requirement for competition.

Therefore, we are proposing a change in 8(a) regulations to require that IDIQ-type contracts be treated like all other contracts when determining the threshold. Specifically, the threshold will be applied to the total estimated value of the contract, including options. This proposed regulatory change will be published for public comment. After the close of the comment period, we will consider all comments received, and will determine whether our proposed change, or any other change, is appropriate to resolve the IDIQ issue.

Finally, the Committee asked for information regarding our administration and enforcement of the competitive business mix requirements of Public Law 100-656. SBA examines compliance with competitive business mix requirements as part of its annual review of 8(a) participants in the transitional stage of program participation. Each firm, as part of its annual update, is required to submit to SBA a business activity report showing the amount of 8(a) and non-8(a) revenues. Additionally, SBA regulations require that program participants in the transitional stage certify that they are in compliance with their competitive business mix targets prior to the award of each 8(a) contract. The field office responsible for servicing the firm then

determines compliance with business activity targets based on a review of the firm's business activity report.

In its implementing regulations published in August 1989, SBA established ranges for the percentage of non-8(a) revenues each firm must achieve during its transitional stage. These regulations also listed the remedial measures that SBA could impose on firms that fail to meet the required mixes.

The remedial measures include requiring the firm to obtain management and technical assistance; conditioning the award of future sole source contracts on the participant's taking affirmative steps to expand its competitive business activity; reducing the firm's approved 8(a) support level; reducing, or eliminating sole source 8(a) contracts; and program termination. The regulations state that the type of remedial measure used depends in part on the extent to which the program participant failed to obtain, and the effort expended in seeking, non-8(a) business.

We believe that, overall, our field offices are appropriately monitoring participants' compliance with the statutorily mandated competitive business mix requirements. However, because we have learned that there is some inconsistency in our application of competitive business mix requirements, we intend to provide additional training to the field office staff.

We want to be sure that when remedial measures are necessary, they are imposed in a fair and consistent manner.

I would like to thank you for giving me the opportunity to offer these comments. I would also like to assure you that I, too, am deeply committed to the achievement of positive changes in the 8(a) program. I will look forward to working with you to that end.

Now, as Mr. Bowles has indicated, we will be happy to answer any questions that you may have.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

OCT 19 1993

Honorable Bill Richardson
Chief Deputy Majority Whip
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Richardson:

This letter is in response to your request for the U.S. Small Business Administration's (SBA) comments on H.R. 2662, the Business Improvement Act of 1993. This bill would modify the Minority Small Business and Capital Ownership Development (8(a)) program.

As you know, the 8(a) program is of primary concern in SBA's recommendations included in the National Performance Review (NPR) report. The NPR suggestion to reinvent the 8(a) program corresponds to my concerns about the current 8(a) program as well. I am communicating with Members of the Small Business Committees in both Houses and will be testifying before hearings on the 8(a) program. With this in mind, here are our views on relevant sections of the bill.

Proposed section 2 would require that 8(a) competitive contracts awarded prior to the date of the enactment of the bill be counted toward the achievement of a firm's non-8(a) business activity targets. The effect of the proposed section would obstruct the intent of the present language and regulations which is to ensure that program participants do not develop an unreasonable reliance on 8(a) contracts and to ease the transition of 8(a) firms into the competitive marketplace. SBA opposes this section as proposed.

Proposed section 3 would allow contracting officers to conduct competitions limited to Small Disadvantaged Business firms. This would increase procurement opportunities government-wide for SDBs because currently only the Department of Defense has authority for establishment of an SDB program. SBA supports this proposed section.

Proposed section 4 would authorize agencies to award sole source contracts to 8(a) firms after they leave the program if they have submitted representations and certifications for the specific contract prior to exiting. This would lessen the problem of 8(a) firms scrambling during their last few program months to get sole source contracts signed before their exit date. SBA recommends modifying this provision to allow eligibility only if, prior to the date of program exit, SBA had accepted the requirement for the 8(a) program and the firm had submitted its representations and certifications as part of its initial bid or offer, including price.

Proposed section 5 would eliminate competition limited to 8(a) firms. As part of its overall examination of the 8(a) program, SBA is studying the issue. Major procurement agencies clearly believe, however, that competition in the 8(a) program is advantageous to the Federal Government and would oppose its elimination.

Proposed section 6 would provide continued access to business opportunities to firms which have graduated from the 8(a) program. It would also require in paragraph (E)(vi) that once an SDB set aside is used for a particular procurement, the procurement would always have to be a set aside. Paragraph (E)(vi) would establish a size standard for small business as not having more than 1500 employees. SBA opposes these changes, in respective order, as: 1) making the purpose of graduation moot; 2) discouraging agencies from using SDB procurements for fear of being locked into always being required to use this program; and 3) protecting firms that are not small and disadvantaged.

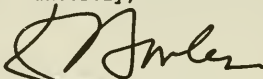
Proposed section 7 would require SBA to perform a study of development program participation terms by industry sector and suspend graduation from the program pending the establishment of new participation terms based on the study. The term "industry sector" is unclear. Therefore, SBA recommends using the term "SIC code," as that term is used in 13 C.F.R. §121 et. seq., instead of the term "industry sector." SBA opposes suspension of program graduation pending the results of the study and establishment of new terms as it could postpone graduation indefinitely.

Finally, proposed section 8 would allow goods or services acquired from small businesses owned and controlled by "members of an economically disadvantaged Indian Tribe" to be counted toward both 8(a) and "Buy Indian" acquisition targets or goals. In order to be consistent with the language currently included in the Small Business Act regarding tribally-owned 8(a) concerns, SBA recommends that this proposed section be redrafted to read as follows:

"Notwithstanding any other provision of law, if a Federal agency contracts with the Small Business Administration under section 8(a) of the Small Business Act (15 U.S.C. 637(a)) for the acquisition of goods or services from a small business concern owned by an economically disadvantaged Indian tribe (or a wholly owned business entity of such tribe) such acquisition shall be considered to be in compliance with section 23 of the Act of June 25, 1910 (36 Stat. 861; 25 U.S.C. 47; popularly known as the "buy Indian Act")."

Thank you for the opportunity to comment on this legislation. The Office of Management and Budget has advised that it has no objection to submission of this report from the standpoint of the Administration's program.

Sincerely,



Erskine B. Bowles
Administrator

APPENDIX 2.—GAO'S SEPTEMBER 22, 1993, TESTIMONY CONCERNING
THE SBA'S SECTION 8(a) PROGRAM (WHICH PARTLY RELATES TO THE
SBA'S SEPTEMBER 22, CONGRESSIONAL TESTIMONY IN APPENDIX 1)

United States General Accounting Office

GAO

Testimony

Before the Committee on Small Business
House of Representatives

For Release on Delivery
Expected at
10 a.m., EDT
Wednesday
September 22, 1993

SMALL BUSINESS

The Small Business
Administration's Progress
in Restructuring Its Business
Development Program

Statement of Jacquelyn Williams-Bridgers,
Associate Director, Housing and Community Development
Issues,
Resources, Community, and Economic Development Division



Mr. Chairman and Members of the Committee:

We are pleased to be here to discuss our report that you are releasing today on the Small Business Administration's (SBA) progress in implementing changes to its 8(a) business development program that were mandated by the Business Opportunity Development Reform Act of 1988 and subsequent amendments.¹ As you know, the goal of the 8(a) program is to promote the development of small businesses that are owned and controlled by socially and economically disadvantaged individuals.

The Congress enacted this act² because the 8(a) program was not developing firms owned by socially and economically disadvantaged individuals into viable businesses. The Congress noted that gaining access to the 8(a) program was a lengthy and burdensome process, program administration was inefficient, and few firms were able to compete successfully in the open market upon leaving the 8(a) program. To remedy these problems, the act made a number of changes to improve the 8(a) program's organization and participation standards, business development activities, and overall management. These changes included requiring that SBA (1) develop and implement a process for systematically collecting 8(a) program data; (2) annually report to the Congress on the program's status and accomplishments; (3) process 8(a) program applications

¹Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145, Sept. 17, 1993).

²The "act" refers to both the 1988 legislation and subsequent technical amendments enacted in June 1989.

within 90 days; (4) obtain revised business plans from 8(a) firms so that SBA can better monitor their development; (5) annually review each business plan and, with the 8(a) firm, modify the plan accordingly to help the firm achieve its business development goals; and (6) competitively award 8(a) contracts which exceed a certain dollar threshold.

As you will recall, Mr. Chairman, we testified before this Committee in March 1992 regarding the difficulties that SBA was having in implementing the legislative changes, and the agency's lack of reliable program data needed to effectively manage the 8(a) program.³ Because of these problems, you requested at that hearing that we continue to assess SBA's efforts to implement the mandated program provisions.

In summary, while SBA has made progress in implementing some program changes, it continues to have difficulty in implementing others. SBA did not plan the redesign of the 8(a) program's management information system in accordance with federal regulations and guidelines; SBA's latest estimate for completing the redesign work is late 1995, 5 years later than it originally estimated; and SBA has yet to develop an estimate of the total cost for the system's redesign. Without such a system, the Congress and program managers cannot determine what assistance is being provided

³For a transcript of our testimony, see Small Business: The Small Business Administration's Progress in Restructuring Its 8(a) Business Development Program (GAO/T-RCED-92-35).

to 8(a) firms, assess its effectiveness, or most importantly, assess the 8(a) program's overall effectiveness in developing 8(a) firms. The need for basic information on program accomplishments has been reinforced with the recent enactment of the Government Performance and Results Act of 1993. This legislation requires all federal agencies to develop the information necessary to make objective evaluations of program performance.

In addition, SBA's certification of 8(a) program participants continues to exceed the 90 days mandated in the act, averaging 170 days in fiscal year 1992. Most 8(a) firms have new or revised business plans approved by SBA, but SBA is not annually reviewing each approved business plan as required by the act. And while the value of 8(a) contracts awarded competitively during fiscal year 1992 exceeded the combined values of the prior 2 fiscal years, the distribution of 8(a) contracts continues to be concentrated in a very small percentage of 8(a) firms.

In addition, while SBA has improved its tracking and acquisition of management and technical assistance provided to 8(a) firms, it still needs to develop criteria for measuring the effectiveness of such assistance. Finally, while SBA tracks the principal SBA programs that provide financial assistance to 8(a) firms, it still does not know the full extent of financial assistance provided to 8(a) firms by all SBA programs.

BACKGROUND

The 8(a) program is administered by SBA's Office of Minority Small Business and Capital Ownership Development. As of May 1993, there were 4,483 active 8(a) firms in the program. In fiscal year 1992, the 8(a) program provided 4,693 new 8(a) contracts and 16,578 contract modifications to new and existing 8(a) contracts, together totaling \$3.67 billion, to 8(a) firms.

The 8(a) program is the federal government's principal vehicle for developing small businesses that are owned by minorities and other socially and economically disadvantaged individuals. Since the late 1960s--when SBA first used the 8(a) program's authority to provide jobs in distressed urban areas--the 8(a) program has evolved from one of creating jobs to one of developing firms owned by socially and economically disadvantaged individuals into viable businesses. Toward this end, the Congress has made three major legislative attempts--in 1978, 1980, and 1988--to improve SBA's administration of the 8(a) program and to emphasize its business development aspects.

Over the years, reports by us, SBA's Inspector General, and others have shown that SBA has continually had problems in administering the 8(a) program. These reports have made numerous recommendations to improve SBA's administration of the 8(a) program. However, most recently, a report issued by the U.S.

Commission on Minority Business Development concluded that no more could be done to correct SBA's lax responsibility toward the 8(a) program and recommended that most of SBA's 8(a) program authorities be transferred to a new agency, which would need to be created by statute, in the Department of Commerce.⁴ The report stated that SBA's lack of progress with regard to the 8(a) program is due more to an institutional aversion to the minority business programs than to some chronic resource limitation.

REDESIGN OF THE 8(a) PROGRAM'S MANAGEMENT
INFORMATION SYSTEM NOT PROPERLY PLANNED

The act requires that SBA develop a systematic data collection process and report annually to the Congress on the 8(a) program's status and accomplishments. In 1992, we reported that SBA's management information system for the 8(a) program did not provide SBA with the data needed to effectively manage the program or to meet the act's reporting requirements.⁵ We also reported that SBA recognized the inadequacies of the system and had begun a four-step approach to redesign the 8(a) program's management information system.

⁴United States Commission on Minority Business Development--Final Report (Wash., D.C., 1992).

⁵Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992).

However, our followup work shows that much of SBA's initial efforts to redesign the system were not planned in accordance with federal regulations and guidelines. Specifically, (1) a needs determination that defines the requirements of the system in relation to the agency's mission was not completed; (2) an analysis of the various alternative designs for the system, including the costs and benefits of each, was not performed according to federal requirements; and (3) SBA's overall plan for implementing the system did not outline software, hardware, and telecommunications requirements; describe how the related systems would be interfaced and integrated; or provide a schedule and cost estimate for the redesign effort. As a result, SBA does not know how much the redesign will cost and has little assurance that the alternative it selected is the most cost-effective.

In addition, the lack of proper planning has helped to delay SBA's implementation of the 8(a) program's management information system and to increase the system's costs. SBA originally estimated in 1989 that the redesign of the 8(a) management information system would be completed in 1990. In June 1993, SBA officials estimated that it would take until late 1995 before the system's redesign is complete. Contract costs for developing the second phase of the system's redesign increased by more than 240 percent--from about \$120,000 to over \$418,000--during fiscal year 1992. The contractor responsible for developing this phase repeatedly cited SBA's failure to define users' requirements for

the system as an impediment to its development. As of June 1993, SBA had no estimate of the total cost of redesigning this system.

The act also requires SBA to report to the Congress by April 30 of each year on the status of 8(a) firms and the 8(a) program's accomplishments during the previous fiscal year. The first report, due in April 1991 and covering fiscal year 1990 activities, was not submitted to the Congress until October 1991. SBA's fiscal year 1991 report was not submitted until November 1992. SBA did not submit the report for fiscal year 1992 until the end of July 1993. According to SBA, the delays occurred because the 8(a) management information system did not include data needed to meet the reporting requirements and SBA had to query its field offices for the data.

CERTIFICATION OF 8(a) PROGRAM PARTICIPANTS
CONTINUES TO TAKE LONGER THAN THE ACT ALLOWS

In an effort to improve access to the 8(a) program, the act requires SBA to process each application and decide on an applicant's eligibility for the 8(a) program within 90 days of receiving a completed application. In 1992, we reported that (1) only 24 percent of the applications processed during the first 11 months of 1990 met the mandated time frame, (2) SBA was averaging 117 days to process an application, and (3) SBA was unable to

determine where delays were occurring because of missing data in its manual application-tracking system.

SBA continues to have difficulty meeting the act's 90-day processing requirement. During fiscal year 1992, SBA completed the processing of and decided on 846 8(a) program applications. Our analysis showed that SBA took an average of 170 days to decide whether to approve or decline each of these applications. Of the 846 applications, only 68, or about 8 percent, were processed in 90 days or less. At the same time, 531 applications, or about 63 percent, took at least 151 days to process. (App. I of this testimony shows the processing times for the 846 applications.) According to SBA, of the 554 8(a) program applications in processing as of late May 1993, 231, or 42 percent, had already exceeded the 90-day requirement.

In 1992, we reported that SBA was developing an automated system to track 8(a) program applications. We recommended that SBA fully implement the system and use it to identify where and why application processing delays are occurring, and work to meet the mandated 90-day processing requirement.

Although in responding to our recommendation in July 1992, SBA stated that the new system could identify where and why processing delays were occurring, our followup work shows that the system still is not capable of producing standard reports that provide SBA

with such information. Since January 1992, SBA's emphasis has been on entering application information into the system in order to build a data base. SBA plans to incorporate a reporting capability into the system that will routinely track and provide standard reports on application processing, but because of other ongoing system redesign work, SBA estimates that work will not begin on this effort until sometime in fiscal year 1994. Until SBA builds such a reporting capability into its 8(a) program application-tracking system, it will not be able to routinely identify and deal with application-processing delays on a day-to-day basis.

Despite the automated application-tracking system's lack of a reporting capability, SBA officials maintain that they are aware of where the application-processing delays are occurring and are considering organizational changes that are designed, in part, to decrease application-processing times. SBA has already restructured the 8(a) application-review process in its central office and reduced the overall number of application reviews. SBA is also considering eliminating its field offices from the application-review process, and consolidating all 8(a) program application-review functions at the central-office level.

NOT ALL BUSINESS PLANS REVIEWED ANNUALLY

The act gave increased importance to the business plan as a tool to aid an 8(a) firm's development by requiring that each plan,

among other things, analyze the firm's strengths and weaknesses, set forth its business development goals and objectives, and estimate its future 8(a) and non-8(a) contract activity. The act further directed that (1) for any firm entering the 8(a) program after June 1, 1989, SBA approve the firm's business plan before the firm becomes eligible for contracts and (2) SBA annually review each business plan with the firm and modify the plan, as needed, to make sure that the firm's business development goals are realistic and to help the firm achieve them.

The number of firms in the 8(a) program with approved business plans has increased. In 1992, we reported that SBA had reviewed and approved business plans for 2,250 firms, or 57 percent, of the 3,922 firms in the 8(a) program as of October 1, 1991. The latest data available from SBA showed that, as of November 30, 1992, 3,564 firms, or about 88 percent, of the 4,071 firms in the 8(a) program at that time had new or revised business plans approved by SBA. According to SBA officials, the remaining 12 percent were either relatively new to the 8(a) program, not receiving 8(a) contracts, or in the process of being terminated from the 8(a) program.

Our review of files for 71 randomly selected 8(a) firms located in four district offices in SBA's Regions III and VI showed that 66 of the firms had new or revised business plans approved by SBA. Specifically, all 26 8(a) firms in the New Orleans and San Antonio District Offices, 27 of the 30 8(a) firms in the

Washington, D.C. District Office, and 13 of the 15 8(a) firms in the Philadelphia District Office had approved business plans. None of the five firms without approved business plans had received 8(a) contracts during fiscal years 1991 and 1992. The files also showed that SBA had informed firms that remedial measures would be taken if the firms did not submit business plans. For example, the Philadelphia District Office threatened to terminate two of the firms in our sample from the 8(a) program for not submitting business plans. During our review, one of the firms submitted its plan and SBA approved it, but the other had not submitted a plan.

However, our file review also showed that SBA is not annually reviewing approved business plans, as required by the act. In addition, the emphasis given to the annual reviews varied between SBA offices. SBA had not conducted annual reviews of the business plans for 8 of the 15 8(a) firms in the Philadelphia District Office and 10 of the 30 8(a) firms in the Washington, D.C., District Office. SBA officials in these offices stated that staff had placed a low priority on such reviews. Conversely, SBA had conducted annual business plan reviews for 11 of the 13 8(a) firms in the San Antonio District Office and all 13 of the 8(a) firms in the New Orleans District Office. Unless it annually reviews the business plan of each 8(a) firm, SBA has little or no assurance that the business development goals in the plan remain realistic.

MORE 8(a) CONTRACTS AWARDED COMPETITIVELY.BUT 8(a) CONTRACTS STILL CONCENTRATED INSMALL PERCENTAGE OF FIRMS

To help develop 8(a) firms and better prepare them to compete in the commercial marketplace after the firms leave the 8(a) program, the act mandated that 8(a) program contracts must be awarded competitively when the total contract price, including the estimated value of contract options, exceeds \$5 million for manufacturing contracts or \$3 million for all other contracts. In 1992, we reported that, of the approximately 8,300 new 8(a) contracts awarded in fiscal years 1990 and 1991, totaling \$3 billion, 67 contracts, totaling \$136 million, were awarded competitively. We also reported that we could not determine the number of new 8(a) contracts that should have been awarded competitively because the 8(a) program's management information system did not record the total estimated values of 8(a) contract options that might be exercised in the future.

The dollar value of 8(a) contracts that were awarded competitively during fiscal year 1992 exceeded the combined dollar values of 8(a) contracts that were awarded competitively during fiscal years 1990 and 1991. SBA data showed that of the 4,693 new 8(a) contracts awarded in fiscal year 1992, totaling about \$1.7 billion, 139 contracts, totaling about \$343.4 million, were awarded competitively. This represents about 3 percent of the new 8(a)

contracts awarded in fiscal year 1992 and about 20 percent of the new 8(a) contract dollars. We were unable to determine how many of the new 8(a) contracts awarded in fiscal year 1992 should have been awarded competitively because the 8(a) program's management information system still does not record the total estimated cost of 8(a) contracts, including the value of any 8(a) contract options.

As part of our work involving the competitive award of 8(a) program contracts, we determined the extent to which indefinite delivery, indefinite quantity (IDIQ) contracts in the 8(a) program were being awarded competitively. This type of contract is used when a procuring agency does not know the precise quantity of supplies or services to be provided under the contract and, consequently, is able to estimate only the minimum value of the contract. As the agency identifies a specific need for goods or services, the IDIQ contract is modified to reflect the actual costs associated with the goods or services. When an agency classifies an 8(a) contract as an IDIQ contract, SBA regulations require that the agency consider only the guaranteed minimum value of the contract in deciding whether the contract meets the 8(a) program's competition thresholds and should be competitively awarded. The total estimated or actual lifetime value of an IDIQ contract is not considered in determining whether the contract is subject to competition as it is with other contractual methods.

SBA's 8(a) program management information system does not identify which 8(a) contracts are IDIQ contracts. However, using data obtained from the Federal Procurement Data System,⁶ we determined that in fiscal years 1991 and 1992, 8(a) IDIQ contracts whose values eventually exceeded the competition thresholds were few in number but they accounted for one-half of the total dollar amount of all IDIQ contracts awarded. In these 2 fiscal years, federal agencies awarded 2,872 IDIQ contracts to 8(a) firms. As of May 1993, these contracts had a total value, including modifications, of about \$2.8 billion. Of these contracts, 173 with a total value of about \$1.4 billion ultimately exceeded the competitive thresholds. Although the 173 contracts accounted for only about 6 percent of all IDIQ contracts, they accounted for 50 percent of the total value of all 8(a) IDIQ contracts awarded during the 2 fiscal years. Of the 173 contracts, 21, totaling about \$434 million, were competitively awarded and 152 contracts, totaling about \$966 million, were not competitively awarded.

According to SBA, the IDIQ minimum-value provision in its 8(a) program regulations is intended to protect the 8(a) contractor from over committing financial, personnel, and other resources to meet IDIQ contract requirements that may never materialize. However, SBA officials conceded that a procuring agency could

⁶The Federal Procurement Data System, operated by the Federal Procurement Data Center, collects, develops, and disseminates federal procurement data to the Congress, the executive branch, and the private sector.

inappropriately classify a contract as an IDIQ contract, with the result being that the contract would not be awarded competitively.

The distribution of 8(a) contracts among a relatively few firms is a long-standing condition that continued during fiscal year 1992. As early as 1981, we reported that, on average, 50 8(a) firms annually received about 31 percent of all 8(a) contract awards over a 12-year period.⁷ In May 1988, we reported that 50 firms received about \$1.1 billion, or about 35 percent of the value of 8(a) contracts awarded during fiscal year 1987.⁸ Our January 1992 report noted that, of the 3,645 firms in the 8(a) program at the end of fiscal year 1990, 50, or less than 2 percent, received about \$1.5 billion, or 40 percent of the nearly \$4 billion in 8(a) contracts awarded during the fiscal year. SBA data showed that of the 4,291 firms in the 8(a) program at the end of fiscal year 1992, 50, or less than 2 percent, received about \$1.15 billion, or about 31 percent of the \$3.67 billion in 8(a) contracts and 8(a) contract modifications awarded during the fiscal year.

Conversely, many 8(a) firms continue to receive no contracts. According to SBA, of the 3,645 firms in the 8(a) program at the end of fiscal year 1990, 1,914, or about 53 percent, did not receive any 8(a) program contracts during the fiscal year. During fiscal

⁷The SBA 8(a) Procurement Program--A Promise Unfilled (CED-81-55, Apr. 18, 1981).

⁸Small Business Administration: Status, Operations, and Views on the 8(a) Procurement Program (GAO/RCED-88-148BR, May 24, 1988).

year 1991, 2,155 firms, or 55 percent of the 3,922 firms in the 8(a) program at the end of the fiscal year, did not receive any contracts through the 8(a) program. SBA data showed that during fiscal year 1992, 2,327 firms, or 54 percent of the 4,291 firms in the 8(a) program at the end of the fiscal year, did not receive any 8(a) contracts.

IMPROVEMENTS MADE IN TRACKING AND ACQUISITION
OF MANAGEMENT AND TECHNICAL ASSISTANCE

The act directed us to report on the amount and type of management and technical assistance that SBA provided to 8(a) firms and SBA's criteria to measure the effectiveness of such assistance. While 8(a) firms, as small businesses, are eligible to receive management and technical assistance from various sources to aid their development, SBA's primary source of such assistance for 8(a) firms is its 7(j) program. Under the 7(j) program, SBA hires contractors to conduct seminars and provide one-on-one assistance to 8(a) firms and other small businesses. In fiscal year 1992, SBA provided about \$7.8 million in 7(j) assistance to 2,754 firms.

In 1992, we reported that SBA did not track the amount and type of assistance provided to 8(a) firms under each of the 16 specialized categories of 7(j) assistance. Consequently, when SBA contracted for 7(j) assistance to be provided under each category during the next fiscal year, it had no assurance that the

assistance being procured would be in line with or meet the needs of the 8(a) firms. We also reported that SBA had not developed objective criteria for measuring the effectiveness of 7(j) assistance but instead relied on indicators, such as reports from providers describing the nature of the 7(j) assistance provided, to measure its effectiveness.

SBA has taken several steps to improve its tracking and acquisition of 7(j) assistance. During fiscal year 1992, SBA requested that each field office determine its 7(j) management and technical assistance requirements for fiscal year 1993 on the basis of its 8(a) firms' needs. SBA used these data to make adjustments to its fiscal year 1993 7(j) assistance request and in its subsequent allotments to SBA field offices. In addition, in September 1992, SBA entered into a year-long contract, valued at approximately \$100,000, for the development of an automated system to record, track, and report on the delivery of 7(j) assistance to 8(a) and other small firms. In November 1992, SBA directed its 10 regional offices to provide monthly information to SBA headquarters on the amount of assistance provided under each category of 7(j) management and technical assistance. While the automated system is being developed, SBA is continuing to manually compile the data that the field offices submit on 7(j) assistance.

In early July 1993, SBA entered into a contract, valued at \$197,000, for the development of criteria and a program for

assessing the effectiveness of 7(j) assistance. The contract provides for the contractor to make an initial presentation to SBA on such criteria and program around mid-October 1993.

EXTENT OF FINANCIAL ASSISTANCE

PROVIDED TO 8(a) FIRMS NOT FULLY KNOWN

The act also directed us to report on the amount and type of financial assistance provided to 8(a) firms by SBA. SBA's principal forms of financial assistance for 8(a) firms are 7(a) guaranteed general business loans, 8(a) direct loans, and 8(a) advance payments, which are cash advances from SBA to assist 8(a) firms in performing work on a specific contract. Firms in the 8(a) program can receive other forms of financial assistance, including equity capital and loans from SBA-sponsored investment companies, and microloans from SBA-sponsored development companies.

In 1992, we reported that we were unable to determine the full extent of financial assistance provided to 8(a) firms because SBA did not have a system for identifying all forms of financial assistance provided to them. Therefore, we recommended that SBA determine the amount of loans and other forms of financial assistance provided to 8(a) firms.

In response to our report, SBA modified its loan-accounting system in June 1992 to track 7(a) guaranteed general business loans

made to 8(a) firms. SBA data showed that, between June 1992 and May 1993, 52 guaranteed general business loans--valued at about \$14.5 million--were made to 8(a) firms.

In fiscal year 1992, SBA made 30 8(a) direct loans valued at about \$4.7 million. As of May 1993, SBA had made 19 8(a) direct loans valued at \$3.3 million for fiscal year 1993. Also, in fiscal year 1992, SBA disbursed \$10.1 million in advance payments to 8(a) firms. According to SBA, it discontinued making advance payments in fiscal year 1993 because of congressional concerns regarding its authority to provide such assistance.

Small Business Investment Companies (SBIC), which are privately owned investment firms licensed and regulated by SBA, use their own and borrowed funds to provide equity capital, long-term loans, and other assistance to qualifying small businesses, including 8(a) firms. Much like SBICs, Specialized Small Business Investment Companies (SSBIC) invest in small businesses owned by socially or economically disadvantaged entrepreneurs. In fiscal year 1992, SBICs invested about \$1 billion in small businesses, while SSBICs invested about \$443 million. As of May 1993, SBICs had invested about \$974 million and SSBICs had invested about \$456 million in small businesses for fiscal year 1993. SBA does not have a mechanism for identifying SBIC or SSBIC assistance provided to 8(a) firms.

SBA's microloan program, authorized as a pilot project in October 1991, provides financial assistance to very small businesses, especially those owned by minorities, women, and low-income individuals who are unable to get credit in amounts that most commercial lenders consider too small--\$25,000 or less. In fiscal year 1992, SBA disbursed \$12.7 million to community-based nonprofit organizations to make microloans to eligible small businesses. As of May 1993, SBA had disbursed about \$20.5 million to these organizations for fiscal year 1993. However, SBA does not have a system for identifying the number or dollar amount of microloans made to 8(a) firms. Without information on the assistance provided to 8(a) firms through the microloan, SBIC, and SSBIC programs, SBA cannot provide the Congress or the public with information on the full extent of financial assistance provided to 8(a) firms.

CONCLUSIONS AND RECOMMENDATIONS

Mr. Chairman, more than a year has passed since we testified on the problems SBA had in implementing mandated changes to its 8(a) program. While SBA has made some progress, it continues to have difficulty in managing the 8(a) program so that it meets the requirements of the 1988 act. The 8(a) program still needs a management information system, developed in accordance with federal regulations and guidelines, that provides complete and accurate information on all aspects of the program. Without such a system,

the Congress and program managers cannot determine what assistance is being provided to 8(a) firms, assess its effectiveness, or most importantly, assess the 8(a) program's success in developing 8(a) firms. Access to the 8(a) program still needs to be improved. SBA must provide 8(a) program applicants with timely feedback on their eligibility to participate in the program, but it continues to lack an 8(a) program application-tracking system that can provide timely information on where and why application processing problems are occurring. Finally, SBA must periodically review the business plan of each 8(a) firm. Without such a review, SBA is hampered in its ability to ensure that each plan is up-to-date, that the 8(a) firm's business development goals are realistic, and most importantly, that the firm is progressing toward achieving these goals.

In view of SBA's progress since our January 1992 report, we believe that the recommendations we made in that report that SBA (1) fully implement its automated 8(a) program application-tracking system and work to meet the 90-day processing time frame and (2) determine the amounts of financial assistance provided to 8(a) firms by all SBA programs continue to be valid and should be implemented. In addition, our latest report (GAO/RCED-93-145) recommends that the Administrator, SBA, direct the Associate Administrator, Minority Small Business and Capital Ownership Development, to

- complete and analyze users' requirements for the 8(a) program's management information system, document the system's design, and complete the system's implementation plan, all in accordance with federal regulations and guidelines, and

- direct SBA field offices to annually review each approved business plan, as required by the act.

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Mr. Chairman, this concludes my prepared statement. I would be glad to respond to any questions that you or members of the Committee may have.

APPENDIX I

APPENDIX I

ELAPSED TIMES FOR THE 846 8(A) APPLICATIONS
PROCESSED DURING FISCAL YEAR 1992

Number of days	Number of applications	Percent of applications
90 days and less	68	8.0
91 to 120	100	11.8
121 to 150	147	17.4
151 to 180	191	22.6
181 to 210	174	20.6
More than 210	166	19.6
Total	846	100.0

(385394)

APPENDIX 3.—SUBMISSION AT THE HEARING OF HANDWRITTEN STATEMENT FOR THE RECORD BY RICHARD C. SMITH, READY COMPUTER SOURCE, INC., LOMBARD, IL

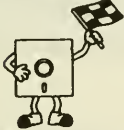
Ready Computer Source Inc. (8) Pagan
Jan. 10-1-93

As a regular Dealer, The Walsh-Healey Act limits the Ability of a regular Dealer to envelop the larger portion of Business. Because he must not purchase Item manufactured by large businesses, In which the minority of the government Agency request.

I strongly feel that ~~it is not~~ if it were possible to ~~also~~ allow the Dealer to purchase the Item manufactured by large Business to fill an contract that the Dealer must have that Item in his Inventory.

Hence the Development of Small Business would be helped and not hindered by policy.

READY COMPUTER SOURCE, INC.



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APPENDIX 4.—PRESS AND MAGAZINE ARTICLES RELATING TO THE SBA'S 8(a) PROGRAM, THE DIFFICULTY IN OBTAINING SURETY BONDS, OR THE ADMINISTRATION OF THE SBA GENERALLY

Page 1 of 5 LRS92007674 Job: 00055391 Prt: 0, Processed: Feb 12 16:19:06 1993 Ser: 1296402709

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SPECIAL REPORT

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IS THE 8(A) PROCESS WORTH ALL THE TROUBLE?

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Ultimately, yes. However, musical-chairs leadership and a lack of direction have blunted the effectiveness of an important program for black business.

Want to stage a high-stakes, big-city version of "The Hatfields vs. The McCoys"? Line up several African-American business owners on one side of a room and a group of U.S. Small Business Administration (SBA) officials on the other and ask: "What's wrong with the 8(a) program?"

Then duck.

Although the controversial minority set-aside program hasn't touched off any deadly shootouts, it has been known to provoke a heated war of words between disgruntled 8(a) entrepreneurs and defensive SBA administrators. The fact that both sides remain at odds is no surprise. The hard truth is that this legislatively mandated federal government program—which falls under section 8(a) of the Small Business Act—has never lived up to its advanced billing. Since its establishment in 1968, charges of mismanagement, lack of direction and limited resources have topped the laundry list of criticisms and complaints leveled at the program. And who can forget the Wedtech scandal? It was a dark day at the SBA in 1987 when it was learned that the Bronx, N.Y.-based defense contractor posed as a minority-owned firm and bribed government officials to gain set-aside contracts.

It seems like everyone has something negative to say about the 8(a) program. A January report submitted by the U.S. General Accounting Office (GAO) to the House and Senate Committees on Small Enterprises. Black business, charged that the lack of

data on many program activities has hurt the SBA's ability to effectively manage the program. After extensive interviews with program officials, congressional leaders and current and former 8(a) participants, BLACK ENTERPRISE agrees that the 24-year-old program remains seriously flawed and deeply troubled.

An increasing number of the program's black business owners are tired of toughing out a lengthy certification process, fed up with receiving insufficient management assistance and disenchanting with the SBA's musical chairs management record. Above

BY KEVIN D. THOMPSON

Black enterprise, V.23 August. 1992 p. 65-69, 68, 65
72,74

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all, many black chief executives are questioning the value of a program designed to make fledgling minority businesses competitive in the private sector. Since black-owned firms make up 48.3% of the 3,919 companies in the nine-year program (see chart, "The 8(a) Breakdown"), their words carry considerable weight.

"The SBA in and of itself is inefficient," contends Jimmie Taylor, president of Alaska Quality Control & Technical Services Ltd., an



The SBA's Watts and Fisher have their work cut out for them.

Anchorage-based professional engineering and testing services firm that received its 8(a) certification six years ago. "When Reagan talked about getting rid of it, that wasn't such a bad idea."

Adds John Robinson, president of Black Diamond Enterprises Ltd., a Capitol Heights, Md., manufacturing and engineering firm: "Going to the dentist is probably better than going to 8(a). It's mind-boggling what they ask you to do."

Existing 8(a) business owners are not the only people complaining. "The 8(a) process is arcane and quite bizarre," says Robert T. Lhulier, the SBA's one-time chief of staff. "The agency doesn't have the resources to help these companies through the program."

Now the president of Robert T. Lhulier & Associates, a Newark, Del.-based consulting firm, Lhulier is trying to change that. As a consultant, it is his job to make it easier for entrepreneurs to successfully get into the program and to teach them how to make it work for them. Considering the number of companies often trapped in the 8(a) labyrinth, he shouldn't have a hard time finding clients.

The Birth Of 8(a)

Having its origins in 1958, the SBA's 8(a) program was designed to give socially and economically disadvantaged business owners access to lucrative government contract dollars. The goal was simple: After receiving several years of management and technical assistance, 8(a) firms were expected to have the necessary skills and contacts to make it on their own in the mainstream.

However, a not-so-funny-thing happened on the road to fostering

minority business development. Instead of creating a host of multimillion-dollar success stories, the program consistently graduated companies that were not sufficiently prepared to compete for contracts with the big boys in the private sector. The result? A large number of former 8(a) companies have gone—and continue to go—out of business shortly after leaving the development program.

Want proof? In 1991, the district offices of the SBA looked at 645 former 8(a) companies that left the program between Oct. 1, 1987 and Sept. 30, 1990. Of those firms, an astounding 42% went out of business. The study also revealed that 48% were still in business, 7% had seriously curtailed operations, and 3% were acquired by other firms. Although the SBA says it doesn't know the ethnicity of those firms, it's safe to say that many of those that closed up shop were black-owned. Since 8(a) was launched, 9,430 companies have participated in the program. And 57% of those were owned by blacks.

"If the 8(a) program were a business," notes congressman John Conyers Jr. (D-Mich.) and senior member and a co-founder of the Congressional Black Caucus (CBC), "they wouldn't qualify for the program themselves. Their performance is unacceptable."

Conyers is right. The program was so embarrassingly ineffective that in 1988, Congress had to step in and draft the Business Opportunity Development Reform Act. That legislation sought to improve access to the program and reduce administrative blunders by doing the following:

- Requiring current 8(a) firms to submit revised business plans so the SBA could better track their development
- Mandating that certification applications be processed within 90 days
- Instructing firms to compete for specific contracts.

It's four years later and unfortunately the SBA is still cleaning up its act. The certification process is still drawn-out and burdensome, the management and financial assistance remain woefully inadequate, and too many companies continue to fail after graduating.

So, who is responsible for cleaning up this king-sized mess? The first name that comes to mind is SBA Administrator Patricia Saiki. As a former two-term congresswoman from Hawaii, Saiki brings limited small business experience to the table. Saiki is also new to the position—she was appointed SBA administrator in March 1991.

The individual who has been charged with revamping the 8(a) program is a former revenues collections manager for the City of New Orleans. The problem is, she's still cutting her federal government teeth. Her name: Judith A. Watts. Since being named associate administrator for the Office of Minority Small Business & Capital Ownership Development (MSB&CDD) last August, Watts' job is to implement the congressional reforms and oversee the SBA's minority small business programs—including 8(a). Translation: It is her task to make things work—or more accurately—turn them around.

Although Watts, who has a \$31.2 million budget for 1992, has extensive experience as a management and financial consultant, she is still getting on-the-job training at the SBA. That does not bode well for the program since Watts and her nationwide staff of 418 are confronted with a Herculean challenge. The program needs a major-league overhaul. Program participants know it. Congress knows it. Nevertheless, the question remains: What's being done about it?

Why 8(a) Has Failed

If you ask any black business owner why he chose 8(a), that answer will be simple: "To help my business grow." For many African-American entrepreneurs, the 8(a) program represents the best—and sometimes only—shot they have at doing substantial

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business with the government.

Says Weldon H. Latham, a small business advocate and partner in the Washington, D.C., law firm of Shaw, Pittman, Potts & Trowbridge, "Despite its problems, the 8(a) program is the most successful federal procurement program that ever existed for minority businesses."

Carl A. Brown, CEO of Mandex Inc., an \$11 million telephone communications firm based in Springfield, Va., adds that through the 8(a) program, it might take only five months to land a contract where in the normal competitive arena, it may take a year or more. "That competitive advantage definitely made it easier for me to get contracts. We would have been half our size and grown a lot slower had it not been for 8(a)," says Brown, whose 18-year-old firm graduated from 8(a) in April 1988.

Len Ray, president of RAY Communications Inc., a Norristown, Pa., systems integrator for local area networks and telephone systems, says that the program gave him the opportunity to demonstrate that his company had some capability. "We became certified in 1986, and we didn't get the first contract until two years later," says Ray. "The first one was with the Census Bureau to install cable—the contract had a ceiling of \$75,000 per year. The first year we did about \$30,000 worth of work. They liked what we did and after that first year, we signed a three-year contract, and we will do about \$200,000 worth of work for the Census Bureau."

William H. Smith was another one of those entrepreneurs who heard that 8(a) might give him a good shot at landing a few government contracts. The president of ComTel Productions Inc., a Londonderry, N.H., film, video, interactive production company, says that he applied to the program at the suggestion of a friend. "Initially, I wasn't interested," recalls Smith, whose company has done a series of Medicare videos for the Health Care Financing Administration featuring "20/20" correspondent Hugh Downs. "I didn't want to get bogged down in something that would involve a lot of paperwork. But a friend told me how it helped him establish a real base for his business. I saw this as an opportunity to help my business become more stable through an added source of contracting."

Smith says that since ComTel joined the program, 8(a) has, among other things, enabled his firm to expend into touch screen technology—or as it's more commonly called, interactive video. "We would not have had the opportunity to get into this end of the business as rapidly had it not been for 8(a)," he says.

However, for every William Smith whose expectations were met, there are hundreds of other 8(a) business owners who walk away disappointed.

Take Jim Taylor. The president of Alaska Quality Control & Technical Services contends that 8(a) has been a total disaster for him. Taylor, whose 10-year-old firm grossed \$900,000 in sales last year, says he joined 8(a) in 1986 because it was touted as a minority



Mandex' Brown says his firm has profited from 8(a).

business development program.

However, Taylor laments that the program hasn't done much to help his company grow. Since joining, he says that he has landed only two contracts totaling \$232,000. The first was a \$32,000 job to analyze asbestos samples at Elmendorf Air Force Base in Anchorage and the second was a \$200,000 contract to install telephone systems for the U.S. Fish & Wildlife agency. Fortunately for Taylor, 98% of his business is non-8(a).

The 8(a) contract that sticks in his mind, however, is the \$15 million job to manage a computer research effort at Elmendorf. While pursuing that contract earlier this year, Taylor says he got little support from the SBA. It was an adversarial situation, he recalls, and a lot of unnecessary volleying. "One of the people at Elmendorf told me about the project

end asked what SIC [standard industrial classification] codes I had. [SIC codes refer to the type of business an 8(a) firm is in.] I told him and he said he'd list the project under this particular code," recalls Taylor. "When I got to the SBA, the first thing they said was, 'What is the size of the contract?' I told them it's for \$1.5 million. They thought it was for more than \$3 million, which means I would have had to compete for it against other 8(a) companies. I finally got that settled with them, but they were not trying to sit down with me to work out the contract."

It's hard to pinpoint the main reason why 8(a) has remained in such a shambles for so long and why it's been allowed to fall countless entrepreneurs. In fact, it's downright impossible. But if you had to start somewhere, you might as well look at the numerous personnel changes at the MSB&COD over the past two years.

Between January and September of last year, the key position of associate administrator was held by four individuals—including Judith Watts. And between May 1990 and December 1991, four persons served as deputy associate administrator for Policy Coordination, Program Certification and Eligibility. No agency—government or not—can maintain a consistent agenda when its top officials are constantly walking or being pushed out the door. (See, "What's Next For The SBA? June 1989.)

Another major reason why the 8(a) program remains ineffective is that in this advanced technological age of ours, the SBA still relies on a manual tracking system. No wonder processing paperwork is a bureaucrat's worst nightmare. Just asking a simple question like, "What's going on with my application?" might take weeks—or months to get answered. The agency's manual tracking system does not identify where or why processing delays occur because it does not track the application through all its stages and often lacks data for stages that are tracked.

This has serious implications. According to the GAO, an astounding 78% of all new applicants approved or declined by the SBA during the first 11 months of 1990 exceeded the act's new 90-day application

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processing requirement. The SBA met the requirement for only about 24% of the 268 applications that it approved or declined between January and November of 1990. The GAO found that the average processing time was 117 days—and even that's rare.

Ask your average 8(a) business owner how long it took him to get

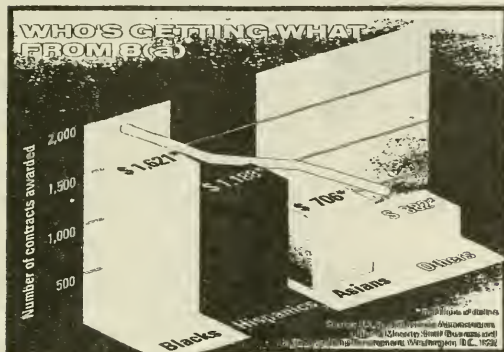
The Herculean Challenge

Judith Watts is either very naive or knows something nobody else does. In her testimony before the House of Representatives Committee on Small Business in March, Watts said, "While there is still some work to be done in implementing the full range of statutory provisions, we remain confident that we have reached a point where the greatest programmatic changes are behind us, and we can now proceed with full implementation."

That's nice jargon, but the bottom line is that the SBA is far from turning around the program. It's no secret that Watts & Co. have their work cut out for them. She told **BLACK ENTERPRISE** that her major challenge is to assist a larger percentage of 8(a) businesses in landing more contracting opportunities. How? Watts says that the SBA plans to increase its involvement with various government agencies to improve their level of knowledge and understanding of the program.

For example, the MSB&COD staff began in December to hold monthly meetings with the directors from various federal offices of Small and Disadvantaged Business Utilization. Specialized sessions focusing on the particular needs of agencies have been held earlier this year with the Agency for International Development and the U.S. Coast Guard. Watts notes that additional outreach programs are scheduled to be held throughout the year. The intent behind the not-so-subtle public relations campaign is obviously to clean up 8(a)'s image and get more government agencies to do business with 8(a) firms.

To bring unqualified MSB&COD staffers up to speed, the SBA last August sponsored a four-day National Training Conference in Arlington, Va. Watts says that more than 125 MSB&COD staff members representing each regional office and most district offices participated. The training covered: eligibility and contract issues; reporting requirements; management and technical assistance and outreach.



certified and the standard response is "two years." Len Ray, of RAY Communications, says he was rejected twice during the certification process. "They stopped processing me one time," says Ray with a laugh, "because they said I didn't put the dates on my resume."

Ray, however, insists that he did.

The SBA maintains that it's aware of the hardships a manual tracking systems causes and says it should have a fully automated, \$1.1 million system on-line by October 1993. In fact, the first phase of that system went on-line in January.

MAKING YOUR WAY THROUGH THE SBA

There's no doubt about it: The 8(a) program is intimidating. The tons of paperwork, bureaucratic red tape and lengthy certification process are enough to scare off even the most experienced entrepreneur. However, if you're brave enough to go the 8(a) route, here are a few pointers that might make your journey less bumpy.

- Find out what and how the government buys before you join the 8(a) program. "Entrepreneurs should do this while they're getting into business," says Jono Polsgrove Butler, deputy associate administrator for programs for the Minority Small Business & Capital Ownership Development Programs.

- You got a good handle on how to negotiate the government procurement maze, visit your local Small Business Administration or Service Corps of Retired Executives office. Most of those offices have on-site counselors who will give you free advice on government procurement procedures and contracting opportunities. (See sidebar, "For More Information.")

- You should also talk to current and former 8(a) participants. However, the only way you'll get the "real deal" on how 8(a) works is by speaking to people who have been through the process.

- Keep in mind: 8(a) is not a "welfare program." If you expect government contracts to just drop into your lap, then 8(a) is not for you. While the SBA does provide some form of financial, technical and management assistance, it's up to the individual entrepreneur to get the most out of the program. The key: Market your company as aggressively as you would if you were competing in the open market.

- Be prepared to submit reams of paperwork. In addition to filling out the 8(a) business eligibility statement, you'll have to submit income tax returns showing revenues for each of the previous two years that you were in business.

- Prepare your company for graduation the moment you enter the program. How? Establish a good mix of 8(a) and non-8(a) contracts. Don't wait until two years before your company is scheduled to graduate before pursuing private-sector work. Start trading as soon as possible so you can land those contracts immediately. "I'm working harder on my commercial base than I am on my 8(a)," says John L. Blake, president of John L. Blake Associates Inc., a Rochester, N.Y., machine tooling supplier.

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Training remains a major concern for SBA officials—and with good reason. Due to severe budget cuts during fiscal year 1991, only \$189,425 was available for MSB&COD staff training compared with \$413,865 in 1990. Therefore, in comparison to the 314 employees who

and technical assistance 8(a) firms require. Inadequate training remains one of the biggest complaints 8(a) business owners have about the program. Under the agency's 7(j) management and technical assistance program, the SBA hires contractors to conduct seminars and provide one-on-one assistance in 16 specialized categories, such as loan packaging and accounting. In fiscal year 1990, the SBA spent about \$5.7 million providing assistance under the 7(j) program to 1,204, 8(a) firms.

Like many SBA observers, the U.S. Commission on Minority Business Development, is also concerned with 8(a)'s structural problems. "The SBA doesn't have the power or the clout to make the 8(a) program more efficient or effective," says Joshua Smith, the commission's chairman and CEO of Maxima Corp., a Lanham, Md.-based systems engineering company.

Based on the recommendations of the testimony of more than 500 hearing participants, the commission's final report on minority business calls for the following changes:

- Upgrade the Minority Business Development Agency to the Minority Business Development Administration. The new organization would be run by an undersecretary and would fall under Senate mandates instead of executive order.
- Move the technical support and loan divisions to the new agency.
- Transfer the contractual elements of the program to the individual government agencies. In other words, cut out the middleman, which in this case is the SBA.

Implementing a new tracking system is another key to getting the program up to speed. The SBA should know where the delays occur in the application process. It also has to work more diligently to meet the new 90-day processing time frame.

Revamping the 8(a) program hasn't been easy—and it never will be. Considering what has to be done to make it run more effectively, one has to wonder if the SBA Hatfields and minority enterprise McCoys will ever stop fighting. □



were trained in 1990, only 135 received training last year.

Says Watts: "This program has undergone a lot of changes. We have to constantly work to move it forward. But I think the program is doing a good job."

Prescriptions For Change

If the 8(a) program is to ever truly foster the development of small minority-owned businesses, it'll have to do more than mouth the usual rhetoric.

It's clear that the MSB&COD must find out how much management

FOR MORE INFORMATION

Need more information on the 8(a) program or on how the government does business? These sources should answer every question you've ever had about the 8(a) program and small business in general but were afraid to ask.

■ **Federal Information Center Program (FIC)**, P.O. Box 600, Cumberland, MD 21501-0300, 301-722-9090, assists people who have questions about federal services, programs and regulations. The program's information specialists will either answer your question directly or refer you to someone who can.

■ **General Services Administration (GSA)**, tells you how to sell products and services to the government. It processes mostly new products that have not been solicited by a specific federal agency. There are 12 GSA service centers. They are located in Los Angeles; San Francisco; Denver; Washington; Atlanta; Chicago; Boston; Kansas City; New York; Philadelphia; Fort Worth, Texas; and Auburn, Wash.

■ **SBA Hotline Answer Book**, by Gustavo Berio (John Wiley & Sons, Inc., New York); \$14.95 for paperback/\$29.95 for hardcover. Having trouble reaching the SBA? Well, don't sweat it, this book professes

to answer the 200 most commonly asked questions of the SBA Hotline and it covers a wide variety of small business concerns.

■ **Service Corps of Retired Executives (SCORE)**, 403 Third St. SW, Suite E300, Washington, DC 20024-3212, 202-205-6762, is an affiliate of the SBA with approximately 305 offices or chapters and more than 12,000 executives who provide management consulting. Consulting services are free and confidential. Workshops are held by many chapters and range in price from \$5 to \$20.

■ **U.S. Government Printing Office, Superintendent of Documents**, Washington, DC 20540, 202-703-3230, operates 24 bookstores nationwide and has printed in excess of 20,000 books.

Write for free "Subject Bibliography" forms SB-307 on small business and SB-850 on federal government forms or call information to find the bookstore in your area. You need a Visa or MasterCard to place an order.

■ **U.S. Small Business Administration (SBA)**, 403 Third St. SW, Washington, DC 20016, 202-205-6300, operates, among other things, offices for Management Assistance, Financial Assistance and Small Business Development Centers.

2ND STORY of Level 1 printed in FULL format.

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SECTION: Vol. 80 ; No. 2 ; Pg. 8

LENGTH: 221 words

HEADLINE: Surety bonds: a necessity becoming harder to get; Includes related article on obtaining a surety bond

BYLINE: McKee, Bradford

BODY

To get work nowadays, subcontractors generally have to obtain their own surety bonds.

The weakness of the economy is making prime contractors less willing to provide surety bonds for subcontractors, and they in turn are finding the bonds harder to get, according to the American Subcontractors Association.

Plenty of bonds are available, says Dick Minick, president of Contractor Resources Inc., a construction-insurance agency in Albuquerque. But because the economy is sluggish and construction markets are shaky, he explains, "the underwriting requirements are being adhered to more closely than they ever have been."

Edith James, president of J & J Installers Inc., a St. Louis steel-erection company, recently had a hard time getting a \$ 15,000 union-required bond to guarantee worker benefits--even though she had tried to back the bond with her own cash.

"It was a horror," says James, who has been in business 15 years.

Obtaining surety bonds has been difficult for many established companies, experts says, but it may be even worse for lesser-known firms or start-ups.

For firms seeking bonding, says Minick, "the advice historically given has never been more true." That advice, as recommended by the American Subcontractors Association, is detailed in the box below.

SUBJECT

Insurance, Surety and fidelity, Purchasing ; Construction industry, Insurance

COMPANY

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SBA's Troubled 8(a) Program May Soon Get Makeover

Concern Grows That Earlier Reforms Didn't Work; Agency Seeks Advice

By John R. ENSHWITZER

And JEANNE SUDOLER

Staff Reporters of THE WALL STREET JOURNAL

A multibillion-dollar federal contracting program has been open to reform to help minority-owned businesses.

The Small Business Administration's so-called 8(a) program has been around for nearly a quarter century, aiming to help minority-owned businesses develop by getting a fair share of federal contracting dollars. The program dispenses over \$4 billion annually in such contracts.

Though the program has helped produce some notable business successes, it has also been dogged by controversy and criticism concerning problems ranging from contractor fraud to bureaucratic ineptitude. In its lifetime, the 8(a) program has gone through a number of major reforms. The most recent occurred last year, in the wake of the Wedtech Corp. contracting scandal. Wedtech, a New York defense contractor that benefited from the 8(a) program and had links to prominent national figures, was brought down by allegations of fraud and criminal activity in 1986.

The subsequent overhaul introduced competitive bidding into the program, streamlined the application and review process, modified eligibility requirements, increased penalties for companies misrepresenting their qualifications and encouraged agreements to expand their non-8(a) business.

Now, agreement is growing that those moves didn't work and that yet another effort is in the offing. This time, the program administrator, has publicly called the 8(a)

program a "mess" and promised to present a proposed overhaul to Congress early next year. Though Mr. Bowles says he can't give specifics on what changes he would like to see, he seems open to the idea of a radical overhaul within its current walls and structures," says Mr. Bowles.

Just last Friday, Mr. Bowles convened a meeting with about two dozen small-business owners and government officials to solicit ideas on how to reform the 8(a) program. More such meetings are planned, SBA officials say.

There seems to be no shortage of people with ideas on how to "fix" the program. Thicket of Recommendations

Indeed, if anything, Mr. Bowles will probably have to sort through a thicket of sometimes conflicting recommendations. Already, some in the minority-business community are lobbying for lighter regulation, even as some SBA officials push for increased oversight.

A bill to reform the 8(a) program, which is sponsored by Sen. Dan Rostenkowski of Illinois, was introduced in the House by two Democrats, Rep. Bill Richardson of New Mexico and Congressional Black Caucus leader Kwesi M'Baye of Maryland. Among other things, it would do away with one major change that in 1988 reform, a requirement that larger 8(a) contracts be awarded through competitive bidding once again allow such contracts to be awarded without competitive bidding.

Competitive bidding was supposed to help ensure that the government got the best price, and also to push program

participants into being more efficient and cost-conscious. But critics say the lengthy time needed to fulfill all the requirements of competitive bidding was a major source of frustration for both the government and the private industry. "We're getting a lot of complaints concerning trying to get them. As a result, the practice diminished the program's attractiveness to both sides, they say.

Before the competitive-bidding rule was instituted, "I could get a contract within 30 days. Now it can take over a year," says Clemon H. Wesley, president and owner of Texcom Inc., a telecommunications company in Landover, Md., and an 8(a) participant.

Many seeing an overhaul of the 8(a) program are pushing on to get the price that they want. "I don't want to pay Mr. Bowles and others have criticized the program's certification process as cumbersome and time-consuming. Though Congress has mandated that all completed applications be acted upon within 90 days, a recent study by the General Accounting Office found that, on average, the SBA was taking nearly twice that long. Currently, over 4,000 companies take part in the 8(a) program.

Reformers are also looking at ways to reduce the estimated 46% failure rate of companies after they graduate from the 8(a) program. One idea put forth by some people in the minority-business community is to create a sort of "postgraduate" program to help them get ready to compete for non-8(a) status.

Currently, a company can stay in the 8(a) program for as long as nine years. Though some think the current eligibility period is already far too long, Mr. Latham, the Washington attorney, says that a "postgraduate" program would be a minority-owned and undercapitalized firm, you are under a great handicap," he says.

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today's issue of The Wall Street Journal is intended to present companies. First references to these companies are except those on page one, the editorial pages and indexes do not cite companies listed solely on page C14, which appears today on page C14. Refer to the pages where the articles begin.

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Legislation Will Be Proposed to Revamp Purchases by Pentagon, Other Agencies

By ANDY PASZTOR
AND THOMAS E. RICKS

Staff Reporters of THE WALL STREET JOURNAL
As part of its acquisition reform effort, the White House is about to unveil a legislative package calling for the Pentagon and civilian agencies to increase substantially their small-business contracts and purchases of commercial products.

The proposal, expected to be announced next week and introduced by a group of senior Democratic senators, seeks to lock into law many concepts bandied about for at least a decade to streamline government procurement, save Pentagon acquisition dollars and increase federal-contract competition. But instead of piecemeal efforts focusing on regulatory changes — which have turned out to be especially unsuccessful in the Pentagon — the Clinton administration has decided to push for creation of a simpler, unified system that essentially covers all defense and nondefense procurement, according to lawmakers and congressional aides.

People working on the legislation said it will stress meeting military needs by turning to commercially available products whenever feasible. The bill also seeks to make it easier and less costly for small manufacturing and service companies to obtain government work, by raising to \$100,000 from \$25,000 the contract-value threshold for exempting such companies from many existing government requirements in areas that include paperwork and auditing.

'Concrete Proposals'

With more than 600 separate laws controlling Defense Department acquisitions, "we have made it much too difficult for firms to integrate their defense activities and their nondefense activities," said Sen. Jeff Bingaman (D., N.M.), one of the legislation's main sponsors. Unlike previous bids to reform the acquisition system, Sen. Bingaman said in a recent interview, "this is not just another report. We've done our homework, and we have concrete proposals."

To help larger companies, the legislation is expected to call for significantly more reliance on their commercial-cost structure, and not on the separate justifications and cost submissions now required by federal statutes. In addition, the legislation calls for speedier resolution of bid protests and other challenges by losing bidders.

White House Budget Director Leon Panetta previously said that some procurement-related proposals were forthcoming, but the administration hasn't disclosed any details and the shape of the final package wasn't hammered out until the past few days.

The move is part of the White House's "retrovenuing" government initiative, and it is likely to appeal to many lawmakers seeking to point themselves as cutting waste in the wake of votes to increase taxes. More broadly, however, the pro-

posed procurement changes have become an important element of President Clinton's policies to help defense companies convert to commercial businesses.

"The most effective way to help defense contractors right now," Sen. Bingaman said in the interview, "is to reform the defense acquisition system so that it is easier to do business with the government." Sen. John Glenn (D., Ohio), Carl Levin (D., Mich.) and Sam Nunn (D., Ga.) also are expected to sponsor the bill.

Unions Are Unhappy

Interestingly, the biggest points of controversy in drafting the bill have arisen not with the defense industry, which seems largely comfortable with it, but with labor unions. Unions privately are unhappy with certain of the bill's proposed changes to parts of current procurement law that "are there for socioeconomic purposes," said one congressional aide familiar with the discussions.

Other opposition may come from segments of the small-business community worried about losing certain preferences or "set-asides" they now enjoy. Furthermore, some lawmakers are bound to oppose portions of the package because the result is likely to be more competition for companies back home.

Like the North American Free Trade Agreement, the procurement-reform bill may prove to be more popular with congressional Republicans than with Democrats. Indeed, the bill's current draft targets so many restrictions on government buying that some Republican lawmakers worry the White House won't spend the political capital necessary to get the measure passed, and will leave them holding a controversial bag. But another person deeply involved in drafting the bill said she is confident that it will enjoy wide bipartisan support.

To some extent, the move simply reflects that shrinking Pentagon acquisition budgets — down almost 50% from the peak of the early 1980s defense buildup — make it harder for the military to impose its own set of procurement rules on industry. By the same token, White House and Pentagon officials hope the changes will make it easier for defense companies to convert high-tech research to commercial uses.

Overall, the bill follows the recommendations of a congressionally mandated report by a panel of industry and government procurement experts released last January. LeRoy Haugh, vice president for procurement matters at the Aerospace Industries Association and a member of that panel, said contractors generally support the panel's recommendations to reduce "military-specific" requirements in recommending elimination of overlapping and sometimes conflicting laws, the panel concluded that Congress should "identify broad policy objectives and fundamental requirements," but avoid micro-management and excessive compliance costs that "burden technological innovation."

Stride I Siegel a President

By WALL ST. JOURNAL

CAMBRIDGE, Mass. (The Wall Street Journal) — Keds Corp. named chief executive officer of Levi Strauss.

In naming Keds, Sperry has once again marketing talk. At his new office, succeeds marketing executive Stride Rite in Boston Inc. P. also been CEO of Fisher-P. Mr. Siegel's time. Lately the maker has to cheap rivals, agreed to pay charges that it wouldn't for its Keds share. In picking man David F. looking for a "right." Mr. Siegel, San Francisco action for 28 record of his director and vision.

Mr. Siegel Rite in mid-D company's financial officer from retiree CEO and CEO down from Siegel's arrival.

COCA-COLA P. Black was beverage company. is president of the Newspaper industry org 250 newspapers. She succeeds J. resigned to her South Korea.

CHRYSLER Mich. — Arthur formerly vice president of vice president of the National Wildlife Federation. 30 year Gregor. is this concern, succeeds continues as chief officer. Mr. Gregor's time of operation.

BLANCK & I Md. — Thomas was named CEO

New SBA Chief Aims to Make Agency a 'Powerhouse'

By Jane Applegate

Erskine Bowles, President Clinton's new chief of the Small Business Administration, calls himself a "listening post" for the president.

To prove it, Bowles said he plans to hold several town hall meetings across the country this summer. He plans to visit six to eight urban and rural areas, meeting with local lenders during the day and business owners in the evening.

"I think we'll wear ourselves out, but we'll really learn something," said Bowles, who recently sold his interest in the North Carolina investment banking firm he founded 18 years ago to work for the Clinton administration. "Our goal is to make Bill Clinton's new SBA into a real powerhouse."

Small-business leaders say Bowles's business savvy and genuine enthusiasm for the job set him apart from the last two administrators, who were Republican politicians offered the SBA post after losing their state elections.

"Clearly, this president intends to deliver to small business and hear from small business through Erskine Bowles," said John Satagaj, president of the Small Business Legislative Council, which represent 100 trade associations. "Even before his confirmation, everybody felt they could work with this guy."

One of the first things Bowles did when he got the job was meet with SBA staffers, handing everyone buttons reading "Champion." It

Small-business leaders say Erskine Bowles's business savvy and genuine enthusiasm for the job sets him apart from the last two administrators.

was a slightly corny but effective morale booster, and SBA employees wore the buttons proudly.

During the Memorial Day weekend he spent hours answering electronic mail messages from SBA employees because he had asked them to send him suggestions.

For someone new to government service, Bowles faces a daunting task. Staffers say morale at the agency—targeted for demolition during the Reagan administration—has been low.

And Bowles, like most American small-business owners, has to do more with less money. The SBA's 1994 budget is \$683 million, a 32 percent reduction from the \$1 billion budgeted in 1993. "There is also a call for a significant reduction in our work force," Bowles said. "There will be fewer people in home and regional offices but more people in the field."

Despite fewer dollars, Bowles does not lack access to the White House. At his swearing-in ceremony in May, Clinton pronounced that small business will have a "place at the economic table."

Bowles said he speaks frequently to Chief of Staff Thomas F. "Mac" McLarty and economic adviser Gene Sperling. Bowles became acquainted with Clinton insiders when he helped organize the pre-inaugural economic summit at Little Rock, Ark.

The toughest thing about accepting the SBA job was having to sell his successful investment banking firm to his partners.

"It was horrible," Bowles admitted. "Other than my kids, my business has been the biggest part of my life." But, he said, the business, which raised money for small and mid-size companies, "wasn't built around one person."

"I saw one of my former partners recently at an awards ceremony for my kids, and he said the firm is doing great," he said.

Meanwhile, Bowles said he is busy interview-

ing candidates for top jobs and planning the town hall meetings. "We want businesses to tell us how the SBA can be more user-friendly—how we can redesign our packages and programs so we can help you better," he said.

Bowles is calling on all the small-business organizations to help publicize the meetings and send him their top priorities for consideration.

"We've made a commitment to work closely with the agency," said John Motley, vice president of government affairs for the National Federation of Independent Business, which represents about 600,000 business owners. The federation's president, Jack Farris, has met with Bowles a half-dozen times and "is very pleased." Motley said, adding that his group hopes Bowles will make some changes at the SBA.

John Galles, executive vice president of National Small Business United, said he is pleased that Clinton "kept his promise to hire someone from the small-business community to run the SBA."

"I'm impressed with Erskine's sensitivity to the needs of small business owners for capital and credit," Galles said. "We hope that he lives up to his commitment to raise the SBA to a new level of significance within the federal government." ■

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Wall Street Journal

LIVELINESS

Clinton's Pick to Head SBA Is a Champion in the Field

Bowles Built Successful Bank by Boosting Fortunes of Small Businesses

By LINNAN GUY

Staff Reporter of THE WALL STREET JOURNAL

CHARLOTTE, N.C. — President Clinton's pick to run the Small Business Administration, a former banker, has made his field somewhat from a less than ideal position. Some of the best opportunities lie in mundane areas that glitzy folk neglect.

This week, Erskine Bowles will face congressional confirmation hearings in Washington. He will be the first SBA administrator. Previously, he helped build Bowles Hollowell Conner & Co. into a successful investment bank in the burgeoning Southeast by serving an unglamorous side of American business: small, family-owned firms with little extension but often overlooked needs.

Having extensive experience working with small business sets Mr. Bowles apart from recent SBA ad-

ministrators, whose backgrounds have mainly been political. The banker's supporters believe this experience could give Mr. Bowles an edge in handling the problems of small-business owners.

If confirmed, the 47-year-old banker will sell his stake in the investment firm to his four partners. The 60-employee firm probably will remain the region's pre-eminent investment-banking specialist for small and medium-sized companies. Mr. Bowles is well known to SBA officials. He was part of Morgan Stanley & Co. in 1973 to co-found it — and later persuaded several other New York bankers to join him in Charlotte.

Bowles Hollowell says it handled a

record 37 transactions in 1992, up from 19 in 1991, when the Gulf War and the credit crunch hurt business. Industry watchers estimate its revenue total at just under \$20 million, up from \$15 million in 1991, the earlier year. (The firm declines to confirm the figures.)

Bowles Hollowell's success seems largely due to its willingness to champion small companies with annual sales ranging between \$25 million and \$250 million. Though its client base now extends globally, its best customers still are small companies such as textile and low-tech manufacturers. "We've been finding a giant void," explains Stephen Cummings, a managing director.

But Bowles Hollowell is hardly unique. Indeed, it competes with major Wall Street firms and local boutiques on every deal. "We've got a lot of competition," says a New York investment banker down to North Carolina and carve out a whole market segment for themselves," says investor Ted Stolberg of Stolberg Partners, a New York investment firm.

Not Always Easy

That strategy isn't always easy, however. Many smaller businesses lack the widespread contacts with institutional investors and big corporations. "We have to be their champions," Mr. Cummings says.

That's exactly what Bowles Hollowell was for Steel-Hedde Manufacturing Co., a Greenville, S.C., producer of textile-loom accessories. By 1987, Steel Hedde had about 100 employees and sales of \$25 million. Market value was about \$2 million. Limited trading on the so-called pink sheets. So, some shareholders jumped for joy when an Omaha investor offered to pay \$3 million for the manufacturer five years ago. And Steel Hedde retained Bowles

use in finding capital to a variety of other small businesses, including Mahls Bow Furniture Co., an Oklahoma City furniture retailer, and Amrol Inc., a storage-equipment manufacturer. The latter firm also has leveraged buyout firms, such as Frankmann Little & Co. and Weary Capital Corp., in recapitalizing and refinancing smaller deals.

"The [smaller] knowledge of buyers in that [smaller] market that most New York firms don't have," says Brian Little, a Firstmann Little partner. That knowledge has come from specialization, he adds.

Small transactions enough to attract wealthy Wall Streeters, Mr. Cummings says. Unlike Bowles Hollowell, he adds, the firms doing these so-called dinky deals "won't devote their top guns."

Bowles Hollowell officials say their big gains came from larger deals with major corporations such as Lear Siegler Inc. and Textron Inc. shedding smaller units, the firm frequently plays middle man by finding suitable partners and buyers.

Capital-Finding Expertise

Bowles "did the financing and more," says Cummings. He has been successful at arranging the financing, the investment banker firm developed a strategic plan that positioned Spartan for further growth. The result: a \$45 million financing package that actually freed up more capital to reinvest them as a broadening company instead of just another corporate borrower," says Mark Mealy, a managing director in charge of financing. By positioning Spartan, Mr. Evans says, Bowles "got us into a different perspective on who we are."

Bowles Hollowell has applied its exper-

ended Jan. 30, declined by about 16%, to \$107 million. During that year, 79 stores were closed and 15 were opened, leaving 781 stores.

WHO'S NEWS

Callaway Golf Names
Donald Dye President,
Richard Fontaine

First Boston Appoints
Four New Executives

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McDonald's Pop-Lines

APPENDIX 5.—RELEVANT EXCERPTS FROM FINAL REPORT OF THE U.S. COMMISSION ON MINORITY BUSINESS DEVELOPMENT, DECEMBER 1992, PART II, "OVERVIEW," PART III, "SUMMARY OF KEY TOPICS AND RECOMMENDATIONS OF THE INTERIM REPORT," PP. 7-14, AND PART VI, "SUMMARY AND CONCLUSION," PP. 105-113.



United States Commission
on
Minority Business Development



Final Report

II. Overview

The purpose of this Final Report of the Commission is to recite our findings, conclusions, and recommendations with respect to the Federal government's efforts to promote the development of minority business concerns. While our Interim Report identified programs, issues, areas of concern and a methodology for the pursuit of our endeavors, this Final Report is "solution driven" and responds

to the many hard questions raised during our initial year of operation.

Although this Final Report contains many recommendations to utilize minority business programs as part of a national strategy to promote economic development, we believe six of these recommendations to be of greatest significance to the Federal effort.

First, the Commission believes that the continued use of the term "socially and economically disadvantaged small business concern" is inappropriate because it stresses the status of discrimination rather than the effects of discrimination on the nation's economic system. Therefore, the Commission recommends that the term "Historically Underutilized Business" (HUB) should be used in lieu of "socially and economically disadvantaged small business concern" wherever that latter term may now appear in law or regulation. By "Historically Underutilized Business" we mean a for-profit business enterprise, at least 51 percent of which is owned and controlled by one or more individuals who are identified as belonging to a racial or ethnic group that has been subjected historically to prejudice, due to factors beyond the group's control, resulting in an underrepresentation of such enterprises in a particular field of commercial endeavor. Currently, the Commission finds that such groups include Black Americans, Hispanic Americans, Asian-Pacific Americans, Native Americans, and Asian-Indian Americans. By this recommendation the Commission does not intend, however, to eliminate the term "minority business enterprise" since we believe that term to be appropriately descriptive of a class of firms that have been historically underutilized in most areas of industrial activity.

Second, the Commission recommends that the enabling legislation for Capital Ownership Development or the Section 8(a) Program of the Small Business Act be changed in several significant ways. Most importantly, we recommend the elimination of the traditional tripartite 8(a) contract agreements and that agencies be given the authority to contract directly with 8(a) certified firms. However, such firms, at their sole election, should continue to have access to assistance during contract negotiations by government personnel who possess not only the requisite business development skills, but also a facility with federal contract law and regulation. Finally, we recommend that SBA's sole direct involvement with the operation of minority business programs should be confined to implementing a uniform, nationwide system for the certification of HUBs for all federal and federally funded programs that have requirements for the utilization of such concerns.

Third, the Commission recommends that the Congress and the President give favorable consideration to legislation that would create an Administration for the Development of Historically Underutilized Businesses (ADHUB), within the Department of Commerce, to be headed by an undersecretary who reports directly to the Secretary and is subject to confirmation by the Senate. This new agency should be the recipient of the transfer of all authority under sections 8(a) (contract support), 7(j) (management assistance), and 7(a)(20) (direct and guaranteed loans for 8(a) concerns) of the Small Business Act. We also recommend that only those programs of the Minority Business Development Agency that Congress may determine to meet our Uniform Measure of Success (see Section IV. of this Final Report) be transferred to ADHUB.

Fourth, for reasons stated in Section V. (G.) of this Final Report, the Commission recommends that the Congress and the President give favorable consideration to legislation that would re-authorize the United States Commission on Minority Business Development as an on-going entity, incorporating the mission and authorities of the Interagency Council on Minority Business Enterprise and the Minority Enterprise Development Advisory Council, as well as the responsibilities and duties currently found in section 505 of the Business Opportunity Development Reform Act of 1988 (Public Law 100-656). In the interim we recommend that the President take appropriate action by Executive Order to continue the work of the Commission.

Fifth, with respect to access to debt and equity capital, the Commission recommends that the President and the Congress restate the mission of the Small Business Administration in clear and unequivocal terms. The Commission is of the opinion that the primary mission of the SBA should be to promote entrepreneurship by providing or facilitating access to capital by those firms in targeted areas of the economy most in need of stimulation to either avoid economic concentration or to promote other legitimate policy goals necessary to maintain and strengthen the overall economy of the nation. We further recommend that the promotion of long term "risk" investing for minority and small business concerns pursuant to a national investment strategy, based on the concepts presented in this Final Report, particularly those capital gains proposals that would produce the maximum incentives for investment in these concerns. The Commission also supports the recent efforts of the Securities and Exchange Commission designed to lower the costs of compliance, ease the formation of venture capital funds, and establish a securitization program to increase liquidity for the commercial paper of small firms. In the course of our review we have also examined and fully support the recommendations of the Investment Advisory Council in its February 1992 report to the Administrator of the Small Business Administration. The Commission, moreover, strongly recommends implementation of those sections of the Comprehensive Deposit Insurance Reform and Tax Payer Act of 1991 dealing with increased reporting and evaluation of minority and small business access to capital and credit.

Sixth, the Commission calls for the reformation of qualification standards of all government personnel charged with the responsibility to implement the small and minority business programs within the various buying agencies. The Commission recommends that the Office of Personnel Management create a specific job classification for ADHUB personnel responsible for providing management, financial, marketing, and technical assistance to HUBs. Similarly, a new job classification may also be needed for agency personnel that implement programs directly affecting HUBs and small business concerns.

This Final Report contains many other recommendations on a variety of topics that are important to the minority and small business communities. The six recommendations listed above represent our best judgment of what may likely affect the greatest number of HUBs in the most significant ways. However, we are very much mindful of the fact that what we consider a minor recommendation in this Final Report may, in fact, mean the difference between survival and bankruptcy for a particular firm. We urge that all our recommendations be considered by the President and the Congress and that none be disregarded or ignored simply because they were not placed on the list of "top six" recommendations made by the Commission.

The Commission has devised uniform "measures of success" that contain seven discreet standards in order to aid in the analysis of our recommendations and in the evaluation of present program efforts. We strongly suggest that Congress and the Administration use these measures so that there will be some uniformity brought to current efforts of providing assistance to minority business.

We have also included recommendations in this Final Report to improve the fairness of the federal acquisition system in order to promote equitable competition among all firms that desire to market their products and services to the Government. In this section of the Final Report, the Commission has offered recommendations regarding consolidated

contracting, the use of subjective source selection evaluation criteria, contract dispute resolution methods, and reform of agency goal setting procedures.

We have also included more targeted recommendations regarding the subcontracting efforts of other than small business concerns and have called for a Uniform Federal Procurement statute so that such businesses are not subjected to varying criteria of significance regarding the use of HUBs and small firms based merely on the agency that happens to be conducting the acquisition.

With respect to the operations of the 8(a) Program, the Commission has made several detailed recommendations that it urges be adopted by the newly proposed Administration for the Development of Historically Underutilized Businesses. These recommendations pertain to term limitations in the program, competitions among 8(a) certified firms, the use of business plans, the allocation of "national buy" requirements, the administration of developmental assistance, and a change, as mentioned above, in the definition of "eligibility" to embrace the newly formulated concept of Historically Underutilized Business concerns.

The Commission has also reviewed numerous minority business programs of the states and their political subdivisions in order to identify those efforts we believe most beneficial and deserving of replication in other jurisdictions. In the course of this review, we have been made acutely aware of the limitations placed on these

efforts by the holding of the Supreme Court in The City of Richmond v. J. A. Croson & Co., 448 U.S. 469 (1989). Accordingly, the Commission has offered a recommendation that suggests a method for the Federal Government to delegate its more expansive constitutional authorities to the states in order to allow these jurisdictions the greater flexibility they need to tailor remedies that most precisely fit local circumstances.

Finally, the Commission stresses that while its charter may end with the submission of this Final Report, its mission continues until all groups are afforded equitable access to, and a fair chance to participate in, our nation's

economic system. We are wasting opportunities to create jobs, increase national wealth, and enhance our place in global competition due, in part, to our failure to utilize all of the resources at our disposal. It is a problem that is too costly to ignore and too wrought with inequity to tolerate. Accordingly, it is the Commission's most fervent desire that its recommendation to create an on-going Commission on Minority Business Development be favorably considered to protect not only the continuity of our work, but also the prospects for future economic progress that is truly fused in common purpose with equity of opportunity for all people under one nation.

III. Summary of Key Topics & Recommendations of the Interim Report

In the Interim Report the Commission made several recommendations to alert the President and the Congress to those areas of concern that we believed deserving of priority attention. While our recommendations generally received a favorable response, it subsequently became clear to us that many preferred to await the issuance of this Final Report before initiating full consideration of all our recommendations and the factual conclusions on which they are based.

We cannot and do not find fault with such efforts to promote legislative economy by avoiding piecemeal legislation. However, this Final Report and our earlier Interim Report collectively present all of our major concerns and recommendations, given the limitations of time and resources made available to us. It is our desire that the Congress and the President consider them fully and expeditiously and that all segments of the business community are afforded the opportunity to make their voices heard by their elected officials.

In the Interim Report the Commission addressed those issues it believed most critically affected the viability and growth potential of Historically Underutilized Businesses.

As the Commission explored the impact of each of these issues it sought and offered preliminary recommendations in the following areas:

- Capital Ownership Development or 8(a) Program
- Access to Capital
- Subcontracting

- Certification
- Entrepreneurial Development
- International Trade
- Perception
- Need for an Independent Assessment Body

The Capital Ownership or Section 8(a) Program

Our initial analysis of the 8(a) Program focused on five areas: Program Admission; Business Development Assistance; Economic Disadvantage; Resource Allocation and Management Structure; and Program Integrity. The Commission noted many of the same concerns that the Congressional committees expressed relevant to this program's previous performance and present implementation efforts. Although the admission standards, procedures, and the application process have improved, preliminary data from the SBA still pointed to a series of chronic problems.

The Commission explored these issues in more depth in this Final Report. Such issues included:

- SBA Role in Procurement
- National-Buy/Local-Buy
- Economic Disadvantage
- Program Admission
- Program Participation Terms
- Business Development Expense

The Commission was also concerned with the nature and level of training received by Business Opportunity Specialists (BOSs) in the areas of business planning, financial, marketing, and technical assistance.

Lastly, the Commission did find that the SBA continued to fall short of its most fundamental of responsibilities - the collection and compilation of vital and reliable program data. Even though Congress urged the agency for over a decade to correct this situation, the Commission found that SBA made little progress in this area.

Access To Capital

One of the most formidable stumbling blocks to the formation and development of minority businesses is the lack of access to capital. In the Interim Report the Commission gave a description of the "capital gap" as well as possible means of narrowing or eliminating the gap through a variety of government programs that either offer financing or stimulate private-sector financing. Included in this discussion were Small Business Investment Companies (SBICs), Minority Enterprise Small Business Investment Companies (MESBICs), and the Small Business Innovation Research (SBIR) Program. In addition, a discussion was provided regarding a study commissioned by the U.S. Department of Commerce's Minority Business Development Agency. Completed in 1991, this study was conducted by a team led by the Opportunity Funding Corporation. The study offered a comprehensive strategy for closing the capital gap and increasing the participation of minority businesses in the American economy. The Executive Summary of that study was included as Appendix F of the Commission's Interim Report.

Subcontracting

A section of the Interim Report discussed efforts to ensure that a percentage of government subcontracts are available to Historically Underutilized Businesses. We offered suggestions by which large prime contractors could establish specific subcontracting opportunities for small and minority business. Both penalties for failure to reach these goals by a good-faith effort

(liquidated damages) and positive incentives to stimulate this subcontracting were discussed. A pilot mentor program was also explained by which larger companies develop minority firms as "protages."

Certification

In our Interim Report we noted that, while originally intended to safeguard programs designed for minority business from abuse, a myriad of certification processes has evolved and have "backfired", saddling minority businesses with cumbersome, duplicative, and time-consuming red-tape. The Commission suggested that certification processes be standardized and that a "certified" business be recognized by every level of government and not forced into a series of duplicative re-applications. The formulation and implementation of a uniform certification process is dealt with extensively in this Final Report.

Entrepreneurial Development

The Interim Report recognized that the nation needs to denote far more effort on entrepreneurship education and training for minorities at high schools, community colleges, universities, and in professional development programs. The commission continues to view this as a cardinal concern for the future economic growth of America and deserving of continued and specialized study and analysis.

International Trade

Our Interim Report recognized that a globally-based economy is now here, and that vast new markets are opening up for America's entrepreneurs who have the vision, knowledge, and courage to trade and export their services and products throughout the world. A portion of our Interim Report focused on the unique potential that minority businesses have for dealing with ever expanding international markets.

Perception

In this segment of the Interim Report the Commission provided a necessary and frank evaluation of negative perceptions affecting minority business and the importance of the public's recognition of the value of this business sector to our nation's economy. The Commission urged that all Americans work harder to remove the negative mindset that permeates those who own, serve, and are served by minority owned firms.

Need For An Independent Assessment Body

Having done crucial groundwork in the evaluation of efforts to promote the development of Historically Underutilized Businesses, in the Interim Report the Commission stressed the need for the continuation of an independent assessment body that will ensure progress in this arena.

For ease of reference, reproduced below are all of the Recommendations made in our Interim Report:

A. MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT PROGRAM (MSB/COD) OF THE SMALL BUSINESS ADMINISTRATION (8(A) PROGRAM)

● BOS TRAINING PROGRAMS

The Commission recommends training programs be devised for Business Opportunity Specialists to provide adequate instruction in business administration, procurement law, and related disciplines in addition to the requirements of training in the Small Business Administration's regulations and standard operating procedures.

● DATA COLLECTION AND REPORTING

The Commission recommends that the Small Business Administration immediately comply with Congressionally mandated data collection and reporting requirements by acquiring appropriate automated data processing equipment needed to achieve this mandate.

B. LACK OF ACCESS TO CAPITAL

● CREATING A NATIONAL INVESTMENT STRATEGY

The Commission recommends that a national strategy for providing access to capital and credit for minorities in business be developed and implemented which is an investment strategy - not a spending strategy. Government investment must serve as a catalyst for private investment.

● TRACKING THE FLOW OF CAPITAL

The Commission recommends that the Federal Reserve and other relevant agencies institutionalize, refine, and expand the national survey of small business finances that tracks the flow and sources of capital that impact the economic growth of Small and Historically Underutilized Businesses. This study should be continued on a regular basis.

- **REINVIGORATING SBICs AND MESBICs**

The Commission recommends that SBICs and MESBICs be reinvigorated to attract private investment capital and management as they are the only institutional sources of early state, equity-type financing. The Commission also recommends that the SBA reconsider its position on limiting pension fund investment in the SBIC program since such limitation adversely impacts long-term private financing for the nation's growth firms.

C. SUBCONTRACTING

- **PROVIDING POSITIVE INCENTIVES**

The Commission recommends more positive incentives to prime contractors who subcontract to minority businesses. An example of such incentives can be found in the Nunn Amendment to P.L. 101-510, the Defense Authorization Bill of 1991, which created the Pilot Mentor Protege Program. The Commission further recommends that mentorship programs be implemented as part of all federal, state, and local government business development agendas, as well as those of private industry.

D. CERTIFICATION

- **STANDARDIZING THE CERTIFICATION PROCESS**

The Commission recommends the establishment of a standard certification process for Historically Underutilized Businesses.

E. TRAINING AND EDUCATION FOR MINORITY ENTREPRENEURS

- **ENTREPRENEURIAL DEVELOPMENT**

The Commission recommends that emphasis be placed on entrepreneurship education and training for minorities at high schools, community colleges, universities, and in professional development programs as a means of achieving America's economic well-being.

F. INTERNATIONAL TRADE

- **MEASURING EXPORT CONTRIBUTIONS**

The Commission recommends that the Commerce Department, the SBA, the Office of Management and Budget (OMB), and other relevant agencies develop appropriate data collection techniques to measure the contributions of Small and Historically Underutilized Businesses to U.S. export activities, but only in a manner that will not require burdensome compliance costs.

G. PERCEPTION

- **ADOPT POSITIVE TERMINOLOGY**

The Commission recommends the adoption of new terminology which implies a more positive and accurate perception of minorities in business. We have adopted "Historically Underutilized Businesses (HUBs)" to refer to minority owned businesses and encourage the use of this term.

H. NEED FOR AN INDEPENDENT ASSESSMENT BODY

- **ON-GOING EVALUATION OF FEDERAL PROGRAMS**

The Commission recommends the establishment of an independent assessment body whose purpose would be to review federal and private programs intended to promote and foster the development of Historically Underutilized Businesses.

VI. Summary & Conclusion

A. Summary

Presented below, by topic, are summaries of all key recommendations made in this Final Report. The topical areas parallel the subject headings found in Section V.

(1) The Federal Organization

The Small Business Administration

The Commission recommends that the Congress and the Administration redirect the SBA Business Loan Programs to achieve the original purpose of the underlying statute, as recited in Section 2 of the Small Business Act. In our opinion that would entail limiting the availability of SBA financial assistance to those firms capable of returning the highest yield to the Government, measured in terms of increased competition or progress toward other clearly articulated economic policy objectives. In this regard we suggest consideration of a two tiered approach, one that addresses national economic concerns and the other issues of a more local nature.

On the national level the Commission recommends that the universe of eligible firms be limited to small enterprises attempting to enter, maintain, or expand a presence in economically concentrated industries. In addition, there are certain industries that we, as a nation, should actively promote because of their high growth potential, importance to future economic progress, or for their contribution to the industrial base.

While we concede the identification of these "National Priority Businesses" to some central authority in

Washington, DC, we also believe that SBA District Offices must be responsive to the realities in their local economies. Consequently, the Commission recommends that each SBA District Office be allocated a share of loan authority that can be reserved for small business deemed to be a "Local Priority." That priority could embrace the circumstances of a major local employer's need to modernize plant and equipment to fend off foreign competition, or the need of a community to find alternative sources of employment and income to replace a local industry rendered absolute by a new technology. We, of course, do not intend that such funds be used to subsidize inefficient enterprises. Guidelines should be established to prevent abuse and periodically reviewed to assure their efficacy. However, we believe the abundance of discretion in the application of those guidelines should rest on the shoulders of local SBA officials.

The Federal Procurement System

The Commission recommends that:

- (a) All proposed consolidated contracting be reviewed for its impact on small and minority business and for its effect on competition in the near and long term. Such review should be

conducted by either the agency's Director for Small and Small Disadvantaged Business Utilization or by personnel of the appropriate buying activity charged with similar responsibilities, as the Director, to enforce policies and conduct programs for the benefit of small and minority business.

- (b) All source selection evaluation factors and subfactors be contained in the solicitation and each be accompanied by a specific numerical weight. After source selection and prior to award, if possible, each offeror should receive a listing of the scores it was given on each such factor and subfactor. Subsequent to source selection and prior to award, if possible, each offeror should be advised of the name of the apparent successful offeror and the aggregate evaluation score given to that source by the source selection authority.
- (c) Congress consider favorably the creation of a contract disputes agency that would hear both pre-award and post award contract disputes. We further recommend that recourse within the new agency be tiered so that a protester is required to seek mediation before adjudication by an administrative law judge. From there further appeal could be had before a panel of such judges. Judicial review of final administrative decisions should be vested exclusively in the United States Claims Court. The new agency would operate under a single set of procedural rules that stress informality at the lower levels and expeditious considerations at all stages. We should, therefore, also recommend elimination of the boards of contract appeals in all agencies that have them and the

procurement law group in GAO that now handles bid protests. Of course, such resources can be transferred to the new agency, as needed.

- (d) The Office of Federal Procurement Policy and the Small Business Administration formulate binding criteria applicable to all agencies that will detail how procurement goals are to be formulated. Further, the Commission recommends that such goals be submitted to the Congress annually as a part of the President's budget request for each agency. We believe that will raise the visibility of goal setting to a much higher level within Government and give the Congress an opportunity to review and analyze the goals before they are adopted. We also believe making a linkage between an agency's budget request and its proposed goals will afford Congress the leverage it needs to garner appropriate attention. The Commission further recommends that an agency's explanation for failure to reach a prior year goal take the form of a "corrective action report" that should be published in the Federal Register for public comments and suggestions.
- (e) With respect to the DoD Mentor-Protege Program, the Congress and the DoD meet with representatives of both the Minority Community and a representative cross-section of other than small DoD prime contractors for the purpose of developing alternative methods for improving the program. At a minimum, we urge consideration of the following:
- The establishment of a long term goal of at least 10 percent for subcontracting with small

disadvantaged business concerns. We further recommend the Government plan to reach this level in no more than four years.

- The Commission believes that the Government should permit mentor firms to receive reasonable profit or fee (otherwise allowable) for assistance rendered to proteges, provided that such assistance can be properly allocated to one or more DoD contracts held by the mentor. Without the incentive to make profit or avoid loss, it is illogical to suppose that potential mentors will embrace the pilot program in significant numbers.
- Mentor-Protege Agreements and their development plans should be required to contain both the expected increases in subcontract awards over time and the additional cost (if any) that will be needed to achieve these goals. Alternative levels of achievement (goals) should also be "costed out" so that the DoD will know beforehand exactly how much of its funds will be needed to achieve specific, identified levels of performance. Those plans that show the highest return on the federal investment should be favored, as well as those that demonstrate significant planned efforts to develop SDBs in so-called non-traditional fields of endeavor. Finally, the Commission believes favorable consideration should also be displayed for those plans that draw at least some funding from non-Federal sources. We believe selection criteria should be formulated along these lines and several separate reimbursement contracts awarded, covering varying disciplines and different areas of the country. The reimbursement contract should cover a mentor's effort under the

program, unless sufficient acquisition program funds are available under its existing cost reimbursement contracts with DoD to finance attainment of those goals contained in the developmental plan.

- (f) With respect to the subcontracting program established under Section 8(d) of the Small Business Act, the Government consider SDB subcontracting achievement as another "deliverable" under cost reimbursement contracts covered by the program. In order to reach an aggressive goal the Government should pay the prime for any reasonable difference in documented price that represents the added expense (if any) incurred by subcontracting with SDBs as opposed to traditional, non-minority sources. We would condition this, of course, on the provision that the displaced traditional supplier is not a small business totally dependent on receiving this work from the prime in order to remain in business. This margin of price difference, if it exists, would be the cost to the Government for purchasing a higher level of SDB performance. The failure to reach their goal, on the other hand, should give rise to the consideration of a reduction in contract price for failure to produce the "deliverable" contracted for by the parties. The Government should not pay for the benefit of a bargain it did not receive.

In addition to this procedure the Commission further recommends that negotiated procurement having an estimated value of \$10 million or more contain evaluation criteria that assign specific weights to each offeror's level of actual past achievement

in subcontracting with small and small disadvantaged business. A small business offeror should, by virtue of its very status, be afforded the maximum evaluation points for small business performance. Likewise a small disadvantaged firm should automatically receive maximum points under both the small and the small disadvantaged business criteria. Moreover, the Commission is also of the opinion that some weight in source selection be afforded to the offeror's proposed commitment for the prospective utilization of small and small disadvantaged business as contained in its subcontracting plan submitted under Section 8(d) of the Small Business Act.

We also believe that the Government should make more extensive use of mandatory teaming agreements and Leader-Follower arrangements in its efforts to promote minority business development. In order to further this purpose, it is urged that the Federal Acquisition Regulation (FAR) be amended to specifically reference and promote the usage of these techniques and all of its collateral benefits.

- (g) The Administration increase the size standards under the subcontracting program if: (1) the SDB has been a stable source of the prime for at least the last three years; (2) the SDB is engaged in a "Non-Traditional Industry" for minority-owned firms; (3) there would be no displacement of a small firm that would put it out of business; and (4) the SDB does not exceed the relevant size standard by more than 200 percent.

(2) The Capital Ownership Development Program (8(a) Program)

The Commission recommends that most authorities recited in the Small Business Act regarding the 8(a) Program be taken from the SBA and vested in another, new Administration, created by statute in the Department of Commerce, that will have the development of Historically Underutilized Businesses as its sole mission. We further recommend that appropriate programs of the Minority Business Development Agency (MBDA) be transferred to this new administration and that the remainder of unobligated funding also be transferred.

Specifically, we recommend that the Congress give favorable consideration to legislation that would accomplish the following:

- (a) Create within the Department of Commerce an Administration for the Development of Historically Underutilized Businesses ("ADHUB") to be headed by an Under Secretary who is subject to confirmation by the Senate.
- (b) Define the mission of the ADHUB to provide business development assistance to firms owned by members of identifiable groups that have been historically underutilized in American business as a result of benign neglect.
- (c) Except as detailed below dealing with the tripartite nature of the 8(a) contract instrument, require ADHUB to be responsible for conducting the 8(a), 7(j), and 7(a)(20) programs and for the compilation, analysis, and reporting of all program data to the Secretary of Commerce, the Congress, and the public.

- (d) Specify that all employees of ADHUB dealing with or responsible for business development shall have at least a college degree or equivalent experience rooted in business, procurement, or finance. In fact, we further recommend the formation of a specific job classification category by the Office of Personnel Management (OPM) to ensure that qualified persons only are selected for such jobs with the new agency.
- (e) Transfer to ADHUB such unobligated funds of SBA and MBDA as may impact the programs of the new agency. We further recommend, that no SBA or MBDA employees be transferred to ADHUB unless they meet the new qualification standards set by the agency and OPM.
- (f) Ensure that existing 7(j) and MBDA contracts and cooperative agreements with third parties be assigned immediately to ADHUB.
- (g) In addition to assisting 8(a) certified firms, provide that ADHUB render assistance to all Historically Underutilized Businesses; such assistance should include, but not be limited to:
- procurement;
 - marketing;
 - accounting;
 - raising capital (debt and equity);
 - skills training or upgrading for employees;
 - technology transfer; and
 - other forms of management and technical assistance.
- (h) Specify that ADHUB work with state and local governments and other than small firms in the private sector in order to increase the utilization of non-Federal resources (including contracts) available to historically underutilized business.
- (i) Require SBA to negotiate with ADHUB, on an annual basis, goals for SBA business loans made to Historically Underutilized Businesses. Disputes between SBA and ADHUB on such goals should be conclusively decided by the Director of the Office of Management and Budget.
- (j) Ensure that no Small Historically Underutilized Business be turned away from SBA assistance merely because similar assistance is available from ADHUB or any other government entity.
- (k) Expand, as detailed *infra*, the role of the Departmental Directors of Small and Disadvantaged Business Utilization.
- (l) Provide such logistical support as may be required to establish an adequate presence of ADHUB employees in field locations throughout the United States.

With respect to the operations of the Section 8(a) Program the Commission recommends that:

- The statute be amended to eliminate the need to award 8(a) contracts as tripartite agreements, with either SBA or ADHUB acting as a conduit, or surrogate prime contractor to the buying agency.
- 8(a) contracts be selected for competition regardless of the dollar size, but that competitions be limited to firms in the last three

years of the program. Further, requirements for competition should be correlated with approved 8(a) contract support levels.

● A management information system be established that:

- 1) identifies requirements sufficiently "up-stream" in the procurement process so that buying agencies have not already nominated 8(a) sources;
- 2) aggregates such data by appropriate SIC code designations and disseminates that information in a timely, "on-line" basis that is equally accessible to all 8(a) firms in approved SIC Code categories; and
- 3) further identifies the requirements as potential sole source awards or contracts subject to the competitive 8(a) Program requirements.

● The statute creating ADHUB specifically deals with, and appropriately funds, an office of management information systems (MIS) capable of performing and managing data collection activities. We further recommend that a high ranking career-status employee head this office and be given that responsibility as the sole responsibility of his/her position. The Congress should further provide ADHUB the authority to contract out these services to private sector commercial firms in order to collect, compile, format, and

report the data in a way that is most useful to agency personnel, 8(a) firms, and the Congress. Finally, the director of the MIS office should be held strictly accountable for the achievement of his/her annual MIS plan and rewarded for exemplary performance, but subject to remedial measures in the case of unsatisfactory performance or unacceptable conduct.

● Program participation terms be approved on the basis of four-digit SIC Codes. We believe that such terms should vary from as low as seven years to a maximum of fourteen years, depending upon the industry in which the firm is engaged.

● The term "Historically Underutilized Business" (HUB) be used in lieu of socially and economically disadvantaged small business concern wherever it may now appear in law or regulation.

● If our recommendation regarding the use of the term "Historically Underutilized Business" is not adopted, measures of economic disadvantage be "industry specific" and take into account the capital, asset base, and sales needed to become competitive in that particular business area.

● An automated centralized vendor certification process be established to designate qualifying firms as HUBs. We further recommend that various SBA offices that certify firms for the 8(a) Program be given this added responsibility and the concomitant resources to accomplish this mission.

(3) Uniform Federal Procurement Statute

The Commission concludes that there is a need for a uniform federal procurement statute by which all agencies of the Government would be given a full range of various procurement methods and other authorities to increase the participation rates of HUBs. The Commission, therefore, recommends that such a statute be introduced and made part of either the Small Business Act or the Office of Federal Procurement Policy Act.

(4) Access to Capital

- (a) The Commission recommends encouraging long term risk investing for small and minority businesses using a National Investment Strategy based on the Commission's concepts, particularly those capital gains proposals that would bring maximum incentives to such businesses.
- (b) The Commission supports the small business recommendation of Securities and Exchange Commission Chairman Richard Breeden and urges implementation of all the changes involving lower costs of compliance, easier development of venture capital funds, and a securitization program for commercial paper of small firms.
- (c) The Commission recommends that the responsible agencies of federal, state, and local Governments encourage the development of local financial institutions that will service the financial business needs and transactional economics of local small and minority owned businesses.
- (d) The Commission strongly recommends implementation of those sections of the Comprehensive Deposit Insurance Reform and Tax Payer Act of 1991 dealing with increased reporting and evaluation of small and minority business access to capital and credit. Further, the Commission supports incentives to reduce a financial institution's total insurance premiums if they are located in areas of highly concentrated minority businesses.
- (e) The Commission recommends and encourages the Office of Scientific and Technology Policy to maintain an independent priority policy status for small high technology enterprises.
- (f) The Commission recommends that the Small Business Innovation Development Act be made permanent in order to permit individual small and minority business researchers the opportunity of continuing to assist this nation with its technological and competitive growth.
- (g) The Commission fully endorses the recommendations of the SBA Administrator's Investment Advisory Council in its report dated February 1992 and urges implementation of each phase as quickly as possible.
- (h) The Commission applauds the innovative approaches to the short term and long term credit problems of small and minority businesses described in this Final Report and recommends immediate assessment of the pilot programs so that other regions of the country may benefit from this lending and recovery project as soon as possible.

- (i) Given the challenging steps taken by SBA on behalf of small and minority business in the access to capital area and given the limited resources currently available to the agency, the Commission recommends that SBA redeploy and increase its resources to concentrate its efforts in its investment and lending programs.
- (j) The Commission urges that there be an organizational function created at the White House level to assure that small and minority business capital and credit issues continue to remain a national priority throughout Government.

(5) The Responses to the City of Richmond v. J. A. Croson

The Commission recommends that Congress should use its powers to create a "National Program" where states and local governments are delegated some authority from the Congress in order to give them the requisite flexibility to address their local needs. For example, Congress could make it a condition for the receipt of any form of federal financial assistance that the state or local government recipient establish programs to assist the participation of HUBs in the performance of

all work financed in total or in part with Federal funds. The particular program for each locality could be fashioned from a list of options ranging from management assistance to set-asides, depending on local needs and HUB contract participation rates. In this manner, constitutional rights of the Federal Government can be used in a manner best calculated to resolve the local problems of underutilized businesses.

(6) Need for a Continuing Independent Assessment Body

The Commission recommends that the Congress enact a law to reauthorize the U.S. Commission on Minority Business Development as a permanent entity, incorporating the mission and authorities of the Interagency Council on Minority Business Enterprise and the Minority Enterprise Development Advisory Council as well as the responsibilities and duties found in Section 505 of the 1988 Reform Act. Until this Commission is re-authorized by statute, we request that the President create, by Executive Order, a temporary Commission to continue our work in at least four areas: entrepreneurial training and business related education; international trade; bonding; and program integrity.

B. Conclusion

Minority business development efforts are not social programs; they are investments in America's economic system and in its future. Even if we place considerations of equity and historic discrimination aside, it makes absolutely no economic sense to squander more than 20 percent of the nation's most precious resource -- human talent -- and foster, in effect, practices that primarily force minorities to be consumers rather than producers of wealth.

The continued failure of the nation to address directly the problem of underutilization of the talents and creativity of the minority community will escalate in magnitude and become an increasing drain on the nation's wealth. Demands for governmental subsistence programs can only increase to support minimum life sustaining benefits for a permanent underclass that grows larger with each passing year. Such divisiveness presents a prospective danger to both social and economic stability. The Commission urges that the nation invest in human capital now so that it may reap the benefits of economic progress in the future.

The Commission believes that it is the primary responsibility of the Administration and of the Congress to stop presenting minority business programs as special interest programs and to counter often heard allegations that such programs are mere subsidies. The compelling national interest presented by this issue is economic development and how increasing the access of minority group members to the factors of production will generate

business activity and contribute to that development. Public persuasion is needed to change perception, and we place that responsibility squarely before our elected officials.

Many of the recommendations presented in this Final Report are bold, but it is our opinion that they are necessary steps to move Historically Underutilized Businesses from the marginal economy to the mainstream economy. The Commission calls upon the Administration and the Congress to pursue these recommendations and implement them through law and regulation. We also call on the entire business community to promote our objectives, if not our specific recommendations, so that we may benefit the whole of our economy through increased productive activity and decreased subsistence activity over time.

Finally, the Commission strongly urges that the Congress create an independent assessment body that can both monitor and assist this movement to equal economic rights and the fuller utilization of our human resources. We have suggested the establishment of a permanent Commission on Minority Business Development. We realize there may be other alternatives that can prove of equal merit. But, our major apprehension is that our effort will fade into the past merely to take its place next to other reports and studies of previous times that have a similar theme to the one we now present. If this Commission is to be remembered for one objective, one recommendation, let it be that our work should persist without interruption as a permanent part of the nation's continued search for full economic growth.

APPENDIX 6.—SMALL BUSINESS ADMINISTRATION INSPECTOR GENERAL MATERIAL: MARCH 4, 1992, LETTER TO GOVERNMENT OPERATIONS COMMITTEE CHAIRMAN CONYERS, TOGETHER WITH ATTACHMENT RELATING TO THE MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP PROGRAM AND THE SURETY BOND GUARANTEE PROGRAM; AND MARCH 31, 1993, SUMMARY OF IG AUDIT OF 8(a) PROGRAM WORK PERFORMANCE REQUIREMENTS



U.S. Small Business Administration
Washington, D.C. 20416

March 4, 1992

OFFICE OF
INSPECTOR GENERAL

Honorable John Conyers, Jr.
Chairman
Committee on Government Operations
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Attn: Mr. Donald Goldberg

Dear Mr. Chairman:

Pursuant to your letter of December 23, 1991, I am enclosing a description of the most important management problems in the Small Business Administration (SBA). The management problems described in the attached papers are all derived from audits, special studies, inspections, or other internal reports on SBA programs.

Some of the problems reflect findings and recommendations of work completed by my staff in the Office of Inspector General (OIG), while others come from internal SBA reports or other external sources like the reporting of the General Accounting Office. My guidance for the conduct of this review was that it had to be empirically-based, i.e., hard evidence and full documentation had to be available to support any problem identified for reporting to the Committee on Government Operations.

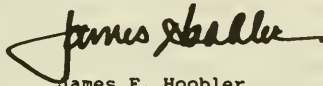
Administrator Saiki has made management improvement within the SBA one of her top priorities, and our review of the status of the Agency's efforts to respond to the management problems identified demonstrates the effect of her leadership and clearly substantiates that real progress is being made. The OIG review also indicates that SBA's managers are cognizant of all the problems identified and they are making reasonable progress in resolving them. In most cases, program officials are pursuing appropriate corrective actions based on recommendations taken from the audits or reports which originally identified the problem.

As you review these and other management problems identified across the Federal Government, I encourage you to consider the impact that an expanded inspection and evaluation capability within the inspector general community could have on addressing many of the problems identified. I am in the process of establishing an Inspection and Evaluation Division in the OIG

for the very purpose of providing independent, objective, factual information on SBA program performance for use by both the Administration and the Congress. While the new inspection and evaluation capability will complement our current OIG audit and investigative activities, it will be more focused on promoting better management of SBA programs through independent analyses of program effectiveness. Many of my colleagues within the inspector general community have already established similar capabilities within their respective departments and agencies and have found them to be most successful in improving the management of program delivery. I know resources are scarce, but an added investment by the Congress in inspection and evaluation capabilities across the executive branch would, in my judgment, reap a high return on investment for the American taxpayer in a very short period of time.

Should you or any member of your staff require additional information on the management problems identified in the enclosure to this letter, please do not hesitate to contact me (202) 205-6580. With best wishes,

Sincerely,

A handwritten signature in black ink, appearing to read "James F. Hoobler". The signature is written in a cursive style with a large, sweeping initial "J".

James F. Hoobler
Inspector General

Enclosure

Minority Small Business and Capital Ownership Program

Description of Problem

The Minority Small Business and Capital Ownership Development (MSB&COD) Program, commonly referred to as the 8(a) program, has four weaknesses: (1) difficulty in processing 8(a) applications within required time frames, (2) non-compliance with a statutory requirement to provide surplus Federal property to 8(a) firms, (3) lack of control over advance payments to 8(a) firms, and (4) absence of a field-linked automated information system.

Background

The Small Business Administration's (SBA) MSB&COD program promotes the development of small businesses that are owned and controlled by socially and economically disadvantaged individuals. Under this program, SBA, acting as a prime contractor, enters into contracts with other Federal departments and agencies and subcontracts the performance of the work to firms in the 8(a) program. Firms in the 8(a) program are also eligible for financial, technical, and managerial assistance from SBA to aid in their development.

Congress enacted the Business Opportunity Development Reform Act of 1988 because of concern that the 8(a) program was not improving the competitive opportunities of firms owned and controlled by socially and economically disadvantaged individuals. Congress noted that access to the 8(a) program was a lengthy and burdensome process, administration of the program was inefficient and inequitable, and few firms were prepared to compete successfully in the market place upon leaving the program. To remedy these problems, the Act made a number of significant changes to the 8(a) program, i.e., creating a new SBA program division responsible for the processing of new 8(a) applications, mandating that 8(a) program applications be processed within 90 days, establishing a nine year program participation period, requiring competition for contracts exceeding established thresholds, and introducing a new direct loan program.

FMFIA Report

SBA has reported the following deficiencies through the Federal Manager's Financial Integrity Act (FMFIA) evaluation process:

- Public Law 100-656, as amended by PL 101-37, requires SBA to process an application for 8(a) program participation within 90 days of the Agency's receipt of

a complete application package. Current 8(a) program regulations require the Agency to process a request for reconsideration of an initial decline within 45 days of receipt. In September 1991, the new Associate Administrator for MSB&COD, determined to meet the required time frames, decided that it would be necessary to streamline the review process at the regional office level. She also concluded that the Division of Program Certification and Eligibility, within Central Office, needed to be restructured to correct the existing work flow problem,.

- Public Law 100-656 established a surplus property program within the 8(a) program. Establishment and administration of this program requires coordination between the SBA and GSA -- the property manager for the Federal Government. Until the program is fully implemented the Agency will not be in compliance with the mandate of the statute, and 8(a) firms will not be able to benefit from this element of business development assistance.
- Repayment of advance payments is often insufficient to fully liquidate advances made by SBA. As a result, the Agency has historically written off outstanding funds as uncollectible. SBA field offices need clear guidance regarding the approval and administration of advance payments, including specific direction on evaluating the potential for contractor cost overruns or decreases in contract payments and assessing the effect of these circumstances on the contractor's cash flow and subsequent ability to repay advance payments.
- At present, MSB&COD has no Central Office and field-linked automation system to track applications for 8(a) program participation, business development activity within the 8(a) portfolio, 8(a) contracting activity, and 7(j) management and technical assistance and outreach activities. Concern for management efficiencies, as well as the mandates of PL 100-656, require the preparation of numerous reports, many of which require statistical information currently unavailable. Because the requisite information is not readily available through an automated system, MSB&COD personnel must rely upon hand-kept records. Also, the lack of automation obviously makes it more difficult to provide the required information on a more timely basis. The lack of automation has also resulted in widely varying methods of program delivery, program tracking and program reporting. One fully automated system would provide a timely reporting capability which is key to the effective management of the MSB&COD program; it would also support the prompt provision of legislatively-mandated reports.

OIG Audits

While the OIG has conducted a limited number of audits of 8(a) firm's compliance with program requirements, these audits have provided some information on problems the SBA has experienced in administering this program. These audits, however, have not focused on the specific material weaknesses described above. The OIG is currently conducting an audit of selected aspects of SBA's 8(a) program administration; it is scheduled for completion by September 30, 1992.

How the Problem Affects SBA's Mission

The SBA has not fully implemented recent Congressionally-mandated reforms intended to benefit the minority small business program; therefore, minority small businesses have yet to realize the full benefit of these reforms. In short, the program is not operating as efficiently as it will once all these reforms are implemented.

Potential Dollar Loss

Information on the total amount of program income at risk is not available. The SBA has, however, established a FY 1992 reserve for losses on advance payments of approximately \$6.9 million.

SBA Corrective Action

The SBA has reported progress on its material weakness action plan. Completed actions include:

- Conducting a one-time "cleanup" of the backlog of applications.

- Implementing a one-year trial basis of a program for distributing surplus property through the existing state surplus property distribution system.

- Meeting with GSA and drafting a memorandum of understanding to establish the surplus property relationship between the two agencies and to identify appropriate procedures for the administration of advance payments.

- Developing a prototype automated information system.

Surety Bond Guarantee Program**Description of Problem**

The surety bond guarantee (SBG) program has five weaknesses: (1) an outdated management information system, (2) inadequate internal and external oversight over surety operations, (3) outdated operating procedures and regulations, (4) collateral use of SBG field personnel in other program areas to the detriment of the SBG program, and (5) insufficient training for both regional and headquarters employees. Finally, a recent Office of Inspector General (OIG) audit report questioned over \$500,000 in costs claimed by a surety, substantiating the need for improved oversight.

Background

The Small Business Investment Act of 1958, as amended, empowers the SBA to guarantee up to 90 percent of a surety's losses incurred and paid as a result of a contractor's breach of the terms of a guaranteed bid bond, payment bond, performance bond, or bonds which are ancillary or coterminal with such bonds, on a contract not exceeding \$1 million in face value. The objective of the statutory authority is to enable small contractors to obtain contracts requiring such bonds, i.e., contracts which they could not obtain without an Agency guarantee to the surety. A longer-term objective is to assist contractors to become more bondable in their own right but not at the expense of those contractors who still need the SBA guarantee to stay in business.

FMFIA Report

SBA reported the following problems through the Federal Managers' Financial Integrity Act (FMFIA) evaluation process:

- The current SBG information system is outdated and does not meet the needs of management or technical staff; prior modifications have caused significant accountability problems.
- Lack of definitive control procedures and operating methods adversely affect delivery of services within prescribed statutory and regulatory limitation. Also, on-site reviews must be broadened to include all regions, sureties, and agents in an effort to reduce the potential for waste, fraud and abuse.
- Policy and operational changes in program areas have not been incorporated into the Agency's Standard

Operating Procedures (SOP) since 1982. The pilot Preferred Surety Program, expected to continue until 1994, is not identified in the Agency's current SOP. Also, a section of the program regulations is not consistent with its application. These points need clarification for purposes of ensuring effective program management and delivery.

- Workload assessments revealed that regional Surety Bond Officers are involved in work assignments unrelated to the Surety Bond Program. These other collateral duties often take priority and utilize anywhere from 30 to 75 percent of the Office of Surety Guarantee's time. Risk of error in underwriting review and program execution can therefore be expected to increase should this collateral use of surety personnel continue.
- Training for staff has been inconsistent. This situation has resulted in the development of varying degrees of underwriting skill levels throughout the country and has affected the uniform delivery of the SBG program and the processing of claims.

OIG Audit

The OIG conducts a minimal number of audits of surety company claims; however, a recent audit of claims resulted in over \$500,000 in questioned costs. The audit of the surety company disclosed that the company had issued ten SBA-guaranteed bonds, valued at \$5.4 million, to a contractor during the period December 1988 through February 1990. The contractor subsequently defaulted on the ten bonded contracts, and, as of March 31, 1991, the surety had determined that the loss on the bonded projects totaled approximately \$2.4 million -- of which SBA's share was approximately \$1,925,000. The OIG audit identified \$608,927 of the estimated loss as questionable costs and, as a result, \$535,527 should not be reimbursed by SBA.

The OIG audit concluded that the surety had management control weaknesses that resulted in reimbursement requests for defaulted projects which were overstated, not allocable, or unsupported. Specifically, we found that: (1) claims for reimbursement were overstated by \$115,003, (2) costs totaling \$186,317 were not allocable because they were not related to the bonded projects, (3) costs totaling \$140,556 were questioned because they appeared not to be reasonable or necessary and/or lacked adequate documentation, and (4) costs totaling \$167,051 were questioned because the surety failed to notify SBA of prior claims against the contractor when applying for additional guaranties.

In FY 1992, the OIG plans on conducting six surety audits. While the Inspector General believes the audit coverage should be

expanded to include more sureties as well as SBG operations, the OIG currently lacks the resources to do so.

How the Problem Affects SBA's Mission

The lack of proper procedures and oversight results in the potential for increased losses for the SBA program. Losses in excess of user fees must, of course, be borne by the Government.

Potential Dollar Loss

In FY 1990 and FY 1991, after deducting the SBG claim recoveries, SBA paid approximately \$20.3 million and \$19 million, respectively, in SBG claims for those contractors which defaulted on their guaranteed surety bonds. In FY 1992, SBA has established a \$28 million reserve for expected losses on SBG claims.

SBA Corrective Action

SBA has reported progress on its material weakness action plan. Completed actions include: implementing the claims tracking system, conducting on-site reviews at two sureties, preparing a preliminary draft SOP, reorganizing headquarters' operations, completing a study of the regional workload and staffing, and completing the training of headquarters personnel.

The Agency is currently evaluating the \$608,927 in questioned costs raised in the OIG audit.

AUDIT OF
ADMINISTRATION OF THE 8(a) PROGRAM
WORK PERFORMANCE REQUIREMENTS
OFFICE OF MINORITY SMALL BUSINESS AND
CAPITAL OWNERSHIP DEVELOPMENT

Audit Report No.1 3-2-C-002-033

[Excerpts Only]

AUDIT REPORT

U.S. Small Business Administration
Office of Inspector General

Issue Date MAR 31 1993

Audit Report Number
3-2-C-002-033

To: Judith Watts, Associate Administrator
for MSB&COD

From: *Peter L. McClintock*
Peter L. McClintock, Assistant Inspector General
for Auditing

Subject: Administration of the 8(a) Program
Work Performance Requirements

We completed an audit of the administration of the 8(a) Program work performance requirements. The audit generally covered the period October 1991 through June 1992.

The Summary section of the report, beginning on page ii, provides a synopsis of the audit results.

The finding included in this report represents the conclusions of the Auditing Division based on the auditor's testing of your Office's operations. The finding and recommendations are subject to review and implementation of corrective action by your Office in accordance with existing agency procedures for audit follow-up and resolution.

Please provide us your management decision for each recommendation within 30 days. Your management decision should be recorded on the attached SBA Form 1824, "Recommendation Action Sheet," and should indicate either your proposed corrective actions and target dates for completion or an explanation of your disagreement with our recommendations.

Thank you for the courtesies extended to my staff during the audit. Should your staff have any questions, please have them contact J. L. Thompson, Regional Inspector General for Auditing, on (404) 347-3821.

SUMMARY

We have completed an audit of SBA's Minority Small Business and Capital Ownership Development (8(a)) Program. The objective of our audit was to determine the adequacy of SBA's policies and procedures for administering the 8(a) program work performance requirements. This objective was established because compliance audits performed by our Office at 8(a) concerns have disclosed cases in which only a small portion of the effort on 8(a) sole source awards was performed by the 8(a) concerns.

We have concluded that SBA's policies and procedures for administering 8(a) Program work requirements are in need of substantial modification because SBA does not:

- (1) Require 8(a) firms to adhere to the requirements of the Walsh-Healey Public Contracts Act if the contracts involved have been classified as service contracts;
- (2) Monitor contract performance for compliance with regulations limiting the amount of work that can be subcontracted; or
- (3) Have regulations which provide sufficient detail for the 8(a) firms and the funding agencies to accurately and consistently compute the maximum amount of subcontracting permitted.

We believe these conditions exist primarily because SBA has concentrated on the award of contracts to 8(a) concerns without adequately considering the purpose of the program or the cost impact to the Federal Government. As a result, we believe:

- (1) A significant portion of the dollars reported by SBA and other Federal Agencies as 8(a) expenditures have been used for the support of nondisadvantaged concerns through subcontracts and equipment purchases for the procuring Federal Agencies; and
- (2) The Federal Government has incurred substantial additional costs in connection with excessive subcontracting and improper equipment purchases under sole source contracts intended to assist and develop disadvantaged concerns.

We also believe that there is a serious question as to whether the 8(a) contracts on which most of the work was done by others provided useful developmental experience for the disadvantaged concerns to survive without the benefit of sole source contract awards from the Federal Government.

We are recommending that SBA revise and clarify its regulations to comply with the Walsh-Healey Public Contracts Act and limit the percentage of 8(a) contract dollars that may be used for subcontracts and equipment purchases from nondisadvantaged concerns. We are also recommending that SBA establish a monitoring effort and meaningful sanctions, including fee recoveries, to better assure compliance with the revised regulations and authorized program purposes.

We discussed our draft findings with senior Minority Small Business and Capital Ownership Development (MSB&COD) staff at SBA's Central Office on December 1, 1992. In a written response, dated March 17, 1993, the Associate Administrator/MSB&COD generally disagreed with our finding and the recommendations. Those comments have been addressed in the finding and are included in their entirety as Appendix 3.

The finding included in this report is the conclusion of the Auditing Division based on the auditor's testing of your Office's operations. The finding and the recommendations are subject to review, management decision, and corrective action by your Office in accordance with existing Agency procedures for audit follow-up and resolution.



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